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University of Edinburgh

PhD dissertation

Théo Bourgeron

# Constructing legitimacy: An ethnography of the struggle for financial capital in two Paris-based private equity funds

Supervised by Donald MacKenzie (University of Edinburgh) and Valérie Boussard  
(Université Paris Nanterre)

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Parts of this work have been submitted to sociology journals as articles, but not published yet.

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# Summaries

## **Abstract**

This dissertation uses an original qualitative empirical material (two ethnographic observations of private equity funds and 44 interviews with managers of these funds) to investigate how fund managers construct their legitimacy to manage capital. Focusing on the struggle for capital in the private equity sector, it shows how fund managers use symbols to assert their legitimacy on different stages and details the symbolic hierarchies of the private equity sector: it emphasises how this legitimacy struggle is embodied in the body of fund managers and the geographical organisation of their funds (1); it looks at how fund managers accumulate local symbols, such as diplomas, experiences in prestigious institutions or ‘track-record’ of past operations (2); it underlines how fund managers turn potential investment operations into ‘good investment opportunities’ by accumulating symbols of legitimacy coming from bureaucratic internal and external procedures (such as formal decisions by internal committees or reports by auditors and consultants) (3). In doing so, this dissertation shows the cultural dimension of the channels through which capital circulates in the private equity sector.

## **Lay summary**

This dissertation highlights the logics of legitimacy that govern the circulation of capital in investment funds. In contemporary finance, to attract and invest capital, financial actors have to demonstrate their legitimacy to manage it. In addition to emphasising how these legitimacy logics operate at various levels (financial sectors, investment funds, individual fund managers) and in various stages (from the institutionalised rankings of funds to fundraising meetings and everyday working interactions in financial institutions), this dissertation shows the diversity of the instruments involved in financiers' search for legitimacy (material

instruments, such as bodies, buildings and places; social instruments, such as diplomas and professional trajectories; or even technical instruments, such as financial formulas and indicators). In doing so, the thesis provides an alternative portrayal of how capital circulates in the financial sector, one that takes into account the social determinants of this circulation.

## **General introduction**

My meeting with Marc, the CEO of Starlight Partners (one of the two funds that I observed and that I will describe more in depth later), was the first time I realised how extreme and exacerbated the need of financiers<sup>1</sup> to legitimate themselves was. When I arrived in the building of Starlight Partners, just on time for my first meeting, a hostess took me to a meeting room and let me know that she had informed Marc about my arrival. However, Marc did not come to the meeting immediately. He let me wait in the luxurious meeting room for twenty minutes after the theoretical beginning of the interview, alone with my glass of water and Starlight-branded notepads. Then, he strode into the room and, while shaking my hand, told me (presenting himself as a busy man): “let’s go straight to the point [*parlons vite, parlons bien*], I’m in a hurry, what are you proposing to me?” All along the meeting, his attitude seemed to signify his business and his ability to be quicker than other people. For instance, I noticed with a bit of irritation that I was not able to end my sentences, as he was constantly interrupting me to conclude my reasonings and arguments before I could do it myself. Similarly, whereas we had absolutely not evoked any concrete plans for doing an internship (and ethnographic observation) during the phone call that took place before our meeting, at the end of the meeting he decided suddenly to recruit me for two months as a “diversity intern” beginning “as soon as possible” (at the beginning of June 2016, just a few weeks after the meeting), catching me completely unprepared.

The difference of attitudes between Marc and I during this meeting appeared in a particularly striking way through a remark that I clumsily let out. As he asked me “what [I] would be observing here”, I told him my prepared paragraph about how mysterious an

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<sup>1</sup> In this dissertation, I often use the word “financiers” to designate my interviewees – although I am perfectly aware that I am studying private equity fund managers, a very specific kind of financiers, and that my findings cannot be automatically extended to all financiers.



investment fund<sup>2</sup> looked for external observers and how interesting it would be for me to have an ethnographic access to the field. That was because, I concluded, “for external observers, an investment fund just produces one or two decisions per month, so I would be merely interested in knowing how the fifty people working there occupy their daily time”. Marc looked at me strangely, probably trying to determine if I was taunting him, or if I was just an awkward but harmless person – then he laughed. Indeed, my already-prepared question was strongly contrasting with the implicit meaning that Marc’s attitude was conveying since the beginning of the interview, that is to say the busy and intense nature of fund managers’ activity. By asserting that I did not know how fund managers could occupy their daily working time, I was directly negating the overactive attitude of Marc and its implicit meaning, resulting in his laughter.

Even my recruitment as a “diversity intern” at Starlight Partners was not independent from these issues of legitimization. I understood the reasons of my recruitment one year later, when I discovered how numerous the stages of legitimization are for a fund like Starlight Partners. At that time, Marc insisted to introduce me to Lucy, the partner in charge of diversity in the London branch of Starlight (the London branch also hosts the global headquarters of the fund and the crucial investor relations department). Quickly enough during the meeting, as Lucy was reluctantly asking me questions about my observations, I understood that Marc (whose position in the worldwide hierarchy of Starlight was superior to the position of the London partner in charge of diversity) had actually forced Lucy to meet me

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<sup>2</sup> All along this dissertation, I use the word “funds” to designate the financial organisations that I have been studying, as the common language (and my interviewees themselves) call these organisations “funds”. However, technically speaking, these organisations are “asset management companies” and “funds” are only the financial vehicles that they manage (an asset management company being able to manage several funds).

(she let me know during the meeting that Marc had planned uninterrupted appointments for her all during her day in the Paris branch, from her arrival to Paris at 8am – and our meeting occurred at 5:30pm), in order to show her how the Paris branch was dealing with the diversity issue in a better way than the London one. In doing so, he was probably anticipating the recriminations of London investor relations people related to the poor diversity within the French investment team.

Therefore, I understood that beyond the self-presentation that fund managers performed in front of me (an external observer being generally equated to a strange form of journalist, embodying more or less the public opinion), fund managers had to justify and legitimate their activity on numerous other stages. For instance, the justification that Marc was elaborating by presenting me to the London partner in charge of diversity was part of a broader logic of legitimation of the French investment team in front of London investor relations people – this logic being in turn intimately linked to the legitimation practices that London investor relations people had to perform when they were dealing with international investors willing to invest their capital, in order to convince them to entrust it to Starlight Partners. More broadly, during all my Starlight Partners observation, I was struck by the disproportion between my position in the fund and my ability to access Marc easily. It could seem strange that the CEO of Starlight Partners himself would spend time in interviews with me, offer me to come in the fund and impose myself to his subordinate or even his London peers, while most of Starlight's common fund managers struggle to obtain a few minutes of attention from Marc. However, I was part of a legitimation issue for Starlight Partners and even if these issues of legitimation can seem innocent and unprofitable ones (as my internship did not generate any cash flow for the fund, contrary to the activity of many common fund managers at Starlight), they play a significant role in the circulation of capital among investment funds.

Thus, Marc did not invite me to observe Starlight Partners out of sympathy, dandyism or negligence, as I initially thought, but because of a well-understood interest in his position. The decision of enabling me to do a “diversity internship” at Starlight Partners, among numerous similar decisions that Marc was making daily, was part of a broader work of accumulation of a multidimensional symbolic capital, both in a personal way (for Marc himself) and collectively (for the French investment team of Starlight Partners), providing him with the legitimacy to manage constantly growing amounts of capital. This dissertation precisely focuses on the accumulation of symbolic capital and the need for legitimacy in the contemporary circulation of financial capital.

### ***Defining private equity funds***

This dissertation focuses on the issues of symbolic legitimation at work in the circulation of financial capital, through observations in private equity funds. These investment funds have emerged in the 1970s in the US and in the early 1980s in France (to have a more detailed overview of the history of private equity funds, focusing in particular in the French case, see Benquet and Bourgeron forthcoming). Private equity funds are a specific kind of financial “investor” (the concept of “investor” itself is part of the legitimation repertoire of the profession, as investment funds materialise their gain by *divesting* more money from portfolio companies than they *invested* initially), among other kinds of financial investors such as hedge funds, pension funds or conglomerate companies.

Private equity funds invest in non-listed companies (contrary to other kinds of funds that generally invest in commodities or publicly listed companies). Private equity funds buy majority or minority stakes in private, non-listed companies on the merger and acquisition (M&A) market (or sometimes on public markets, but with the project of turning the company private by delisting its stock), in order to hold these stakes for 3 to 5 years and to sell them back later on, with a gain. Depending on the business model of the fund, private equity funds perform a gain either because of the difference between the purchase and the selling price, or because of the dividends the company paid while it was owned by the fund.

Private equity funds are “asset management companies” (*sociétés de gestion*), founded by a set of “partners” (these companies are frequently partnerships) that hire a small number of fund managers to identify investment opportunities. In order to have capital to invest, they have to find external investors (banks, insurance companies, funds of funds, family offices), that agree with each other on the terms of their investment through an asset management contract. In this contract, they delegate the management of a specific amount of capital to the asset management company, generally for a duration of ten years. Then, limited amounts of

this capital are unlocked on an investment by investment basis, following a bureaucratic procedure defined by the asset management contract. Once an investment is liquidated, the asset management company distributes the capital it received from its investment to its investors, after having collected a portion of the capital to pay for its own expenses and to remunerate its managers. As such, asset management companies can manage several funds: for instance, Starlight Partners manages the funds Starlight I, II, III, Starlight Mid-Cap I, and Starlight Mid-Cap II.

As a consequence, the daily activity of an asset management company depends on the investment stage of their funds. First, the asset management company has to perform a fundraising session, during which partners meet investors. Then, the fund has to invest the money it has raised through deals, that is to say corporate buyouts. Fund managers get in touch with shareholders and corporate managers in order to perform the transaction (the “process” phase), they sign a contract with them (the “signing” phase) and perform the internal and external financial transfers that allow for the effective buyout to happen (the “closing” phase). Then, the fund has to monitor its portfolio during the period of investment and to supports spin-off deals (a company under buyout can buy other companies to grow or sell branches to get cash). Then, the fund sells the companies it has bought out following the same procedure as for the purchase. Finally, the asset management company liquidates the fund and distributes its assets to investors and fund managers, as provided for by the asset management contract. For an asset management company like Starlight Partners, that manages several funds, these investment periods overlap each other.

As asset management companies, private equity funds receive income from their activity through three different legal channels. Firstly, the asset management company receives a fixed percentage (generally 2%) of the overall amount of capital raised among investors each year, the *fees*. Secondly, the asset management company receives commissions

paid by companies after their buyout, to reimburse for the services the fund itself has paid (for instance, M&A bankers, consultants, etc.). Thirdly, managers from the asset management company receive a percentage of the profit of the operations they perform for each fund, calculated through the *carried-interest* formula (generally 20% of the gain above an 8% IRR (Internal Rate of Return) threshold), to be paid at the liquidation of the fund. The money that the asset management company earns is used to pay for the costs of the fund, be they current expenses, consulting services (legal, transactional ones) used to perform operations, and the remuneration of fund managers. The remuneration of fund managers (i.e. those who are part of the “deal team”, to the exclusion of personal assistants, hostesses, interns, middle-office managers, etc.) is partly fixed by the asset management contracts and partly left to the discretion of the asset management company itself. Asset management companies often make profits, that can be distributed among the whole investment teams or exclusively to partners depending on their stake in the company.

There are several categories of private equity funds, depending on the kind of companies that they target. Venture capital funds, known for their investments in start-ups, aim to invest in recent and non-profitable companies. Growth capital funds, such as the fund that I observed in my first ethnographic fieldwork (Impact Equity), aim to invest in profitable companies with a strong growth trend. Leveraged buyout (LBO) funds, such as the fund I observed during my second ethnographic fieldwork (Starlight Partners), aim to invest in large, stable, and profitable companies by using of a strong debt leverage that enables them to maximise their gain even if the difference between purchase and selling price is low.

In all these cases, investment funds buy companies in order to restructure them and implement a specific “business plan”. While implementing it, investment funds are not legally allowed to get directly involved in the decision-making of the companies they own. They are in a position of (financial) shareholder, that only enables them to take some particular

decisions, such as the replacement of corporate managers, the performing of M&A operations, or capital increases.

## **Conceptual framework: bringing legitimacy and symbols in the study of private equity funds<sup>3</sup>**

### *The struggle for capital between funds.*

Private equity funds have a double status: they are both investment *subjects* and investment *objects*. Investment *subjects*, because their activity consists in investing in companies – or, in other words, buying companies (private equity investments are usually called “deals” by financiers). Fund managers often consider themselves as “investors”, as they are provided with the responsibility to manage capital and to invest it in an optimal way. They spend their time looking for “investment opportunities”, meeting company owners in need of capital to finance their investments and sometimes providing this capital. As such, they are responsible for the allocation of a small portion of the overall capital produced by society each year. However, private equity funds are also investment *objects*. Contrary to conglomerates, that they replaced as financial investors in the French industry in the 1980s, private equity funds do not own the capital that they invest: as third-party asset management companies, they have to raise money from other “investors”<sup>4</sup>. This position in the “chain of finance” (Arjaliès et al

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<sup>3</sup> This dissertation is built on the UK model for PhD dissertations: in this section, I develop my theoretical framework, the concepts that I am using, and their definitions. In particular, I define the concepts that I use all along this dissertation to understand the private equity field, such as the concepts of struggle for capital, investment objects, symbolic legitimacy, symbolic capital, symbolic construction, stages of legitimacy and symbolic examination processes. Then, in the next section (literature review), I detail the streams of research relevant to my dissertation and locate my own work in this broader literature.

<sup>4</sup> Private equity funds are typical actors of the second financialisation evoked by Fligstein (2001), that manage capital without owning it, contrary to actors of the first financialisation that own the capital that they manage, such as financial conglomerates.



2017) requires funds to construct themselves not only as investment subjects, evaluating and formatting companies in order to find good “investment opportunities”, but also as investment objects, constructing themselves as good potential investments to attract capital from financial intermediaries located upstream in the chain of capital.

As funds do not own the capital that they invest, they are engaged in a permanent *struggle for capital* between each other – and this dissertation intends to study the social mechanisms of such a struggle. Without even evoking the symbolic hierarchies between private equity actors, the mere ability of a private equity fund to exist, grow and earn money is linked to its ability to raise money from investors – as seen previously, funds and fund managers’ income is strongly dependent on the amount of money they raise. As part of fundraising sessions, asset management companies are opposed to each other in their will to raise funds. Investors rank them according to a set of criteria (using for instance the internal rate of return (IRR) indicator, developed more in depth in part 3) and allocate capital to funds that seem to best fit these criteria. Even if the breadth of this competition varies through time and if its nature still has to be determined (this dissertation intends to show how it relies on a legitimacy competition between actors), funds have to engage themselves actively in this struggle for capital in order to continue to exist and to distribute personal wealth to their managers.

#### *The struggle for capital within private equity funds.*

However, the struggle for capital goes beyond the competition between asset management companies. All along the (previously evoked) investment phases of their funds, fund managers have to struggle between each other to appropriate individually (or as teams) the capital that the asset management company has attracted. Indeed, buyout operations are performed each time by small portions of each “deal team” (and an asset management company like Starlight Partners has two “deal teams” dedicated to different kinds of funds),

frequently three to four people with different ranks, by contrast with the fifty fund managers of Starlight Partners overall. When they wish to perform an operation, fund managers have to prepare a set of documents that are examined by successive bureaucratic bodies responsible for accepting or rejecting the investment. Groups within asset management companies struggle with each other to get the right to allocate capital to the operation that they intend to lead, in a context in which the overall amount of capital to invest is limited.

Fund managers need to appropriate capital individually to perform operations not only because of a symbolic requirement (to appear as a successful deal maker and fund manager), but also because of the need to transform capital under management into individual wealth. Indeed, the trajectory of fund managers within asset management companies is determined by their ability to be associated to profitable operations and to stay away from failed ones. Remunerations within asset management companies increase strongly as fund managers progress in the hierarchy: to accumulate personal wealth, fund managers have to perform financial operations in order to increase their hierarchical ranks. Individuals at the bottom of the hierarchical scale (back-office, middle-office, interns of the deal team) earn a relatively low fixed wage compared to the wage of deal team fund managers. As fund managers progress in the hierarchy of the deal team they earn bonuses and are incentivised to the performance of the fund (and of their operations) through several mechanisms, such as the carried-interest and fees. Each fund manager, depending on their position and the contracts they have signed with the asset management company, receives a portion of the capital managed by the company in various forms. Therefore, the struggle for capital between funds and, within funds, between fund managers, makes sense in the broader context of the accumulation of personal wealth by private equity fund managers.

#### *Symbolic organisation of the struggle for capital.*

In this dissertation, I study the symbolic organisation of this struggle for capital. I describe

how capital is claimed by fund managers and allocated to them, without endorsing the neoclassical thesis according to which financial capital would finally be allocated to the most efficient asset management companies. Investment funds are part of the chain of capital: capital produced and accumulated by society circulates among the banking and financial spheres, through the intermediation of numerous asset management organisations, including private equity investment funds. These funds play a role (both local and “disseminated”, to use the words of Ortiz 2014a) in the broader circulation and allocation of capital. However, the circulation of capital through the links of the chain is not randomly organised. Capital is directed from an actor to another one, a link to another link of the chain, according to a set of social factors.

To analyse how capital circulates between capitalist intermediaries, this dissertation uses the concept of legitimacy to manage capital. The concept of legitimacy could be understood in a Weberian meaning (Weber 1978 [1922]): legitimacy is the basis of domination, by contrast with power (that relies on force). Be it traditional, legal-rational or charismatic, legitimacy is defined as the source of consent by dominated social actors. The legitimacy concept has also been developed by Bourdieu (1994), that has emphasised the symbolic construction of legitimacy. This dissertation focuses on the construction of legitimacy to manage capital by studying the empirical fieldwork of private equity funds: in this perspective, the “market for capital” is not studied as a market institution in which supply would match demand depending on the performance of investments. To the contrary, it is studied as a place in which the ability to manage capital relies on the acknowledgement of a legitimacy to manage it. The circulation of capital is not driven by the merit or performance of investment teams, but by their ability to *present themselves as* reliable and efficient, i.e. to build their legitimacy of fund managers. In this perspective, the legitimacy to manage capital

has to be understood as the ability of a social actor (an individual, a fund, a financial sector as a whole) to make other financial intermediaries willing to entrust capital to it.

This legitimacy is acquired through the accumulation of what Bourdieu calls “symbolic capital”. In Bourdieu’s work, the concepts of legitimacy and symbolic legitimacy have initially been introduced to designate the implicit social phenomena underlying economic activities. In his early texts on economic life in Kabylia, Bourdieu (1972) uses the concept of symbolic legitimacy to designate how the Kabylia economic life is implicitly embedded into symbolic hierarchies. For instance, Bourdieu describes how the fact that prestigious Kabyle families are able to get agricultural work for free (*thiwizi*) from their neighbours reveals that they benefit from a symbolically advantageous situation regarding to other families (i.e. that there are symbolic hierarchies and that they are at the top of them) and that this situation can be converted into economic capital – allowing Bourdieu to talk about the prestige of these families as a form of “symbolic capital”.

In this perspective, the concept of “symbolic capital” should be differentiated from the concept of “cultural capital”, as “symbolic capital” refers more generally to “any form of capital (economic, cultural, academic or social capital) as long as it is evaluated through perception categories, ranking systems, [and] classificatory schemes” (Bourdieu 1994:161). Indeed, as Bourdieu shows, symbolic legitimacy results from the accumulation of other forms of capital: for instance, prestigious Kabyle families have to perform important expenses (inviting workers to lavish dinners) to assert their rank and therefore construct their symbolic legitimacy. But the construction of symbolic legitimacy and the circulation of symbolic capital are not exclusively interplaying with economic capital: as Bourdieu shows it later (1979), symbolic legitimacy can also be built through the accumulation of cultural capital (diplomas) or even through the appropriation of prestigious symbols, such as cultural tastes or elite practices.

This approach is distinct from the functionalist (an approach also coined as the “neo-structural economic sociology” by Brailly et al 2019) sociological approach of financial actors based on the concepts of risk, opportunism, and uncertainty. Indeed, given the weight of interpersonal links and particular deals in the private equity activity, the use of symbols detailed in this dissertation could be understood as a way to reduce risk and opportunism in a very uncertain context (in a similar way to research presented by Lazega 2000 on corporate lawyers or Boussard et al 2017 on merger and acquisition bankers). These works make sense of microsocial practices (such as the focus on prestigious venues, previous working experiences or interpersonal connections in the private equity sector) to explain the broader functioning of economic sectors in which they are embedded (these practices enabling actors to trust each other). To the contrary, this dissertation does not study social practices in the private equity sector to understand their structural and functional effects in terms of market stability – it does not insert them in the perspective of their efficiency or inefficiency to make market structures work at the macrosocial scale. As such, this dissertation is part of a more cultural approach of economic activities, in which economic actors orientate in markets thanks to their beliefs on the functioning of the market.

Consequently, this dissertation relies on the concept of legitimacy instead of the concept of trust, because of its broader uses. The concept of trust assumes the involvement of an individual willing to rationally determine whether their partner will act as they expect, whereas legitimacy lies in the interpretation of symbols (and in particular of the symbolic hierarchy of a specific field) through a given interpretative apparatus (Bourdieu 1994). For instance, the concept of legitimacy can be used to understand how the private equity sector as a whole has been able to successfully claim for a growing portion of savings in the French economy (as shown in Benquet and Bourgeron forthcoming) – whereas the concept of trust would seem irrelevant to evoke such macrosocial actors. Beyond that, the concept of

legitimacy refers to a broader social order, based on symbols and hierarchies, whereas trust more often refers to the microsocial relationships between individuals. However, legitimacy and trust are not independent from each other: legitimacy is also a source of trust in the relationship between private equity fund managers and the actors they deal with.

Bourdieuian theoretical frameworks have been applied in various ways to the study of economic phenomena. Some authors have studied markets as social fields and analysed them through the positions of market actors in these fields. Bourdieu himself has studied the French real estate market (Bourdieu 2000): his analysis focuses on the institutional aspects of the construction of this market and the study of actors' positions in their field. Such an approach, developing both the concept of field and an institutionalist vision of markets, has also been implemented in other contexts, including for instance central banking (in the early works of Lebaron on the composition of the field of central bankers: Lebaron 2008), and corporate elites (Bourdieu and Saint-Martin 1978; Dudouet et al 2014). More recently, other authors have imported Bourdieuian concepts into the field of social studies of finance in a different way, using his theory of symbols and legitimacy (see for instance Lebaron 2015; Godechot 2016). These works generally focus on economic phenomena at a microsocial level<sup>5</sup>, emphasising how the position of individuals in the field of finance is based on symbolic hierarchies. As Godechot (2016) has shown it, the worth of a trader in a trading room is determined by his ability to get associated to prestigious symbols – in other words, the worth of a trader specialised in financial mathematics is closely linked to the value of the “financial mathematics” characteristic, envisioned as a symbol, this worth being entangled in imitation and distinction logics.

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<sup>5</sup> Despite notable exceptions that articulate the concept of symbolic legitimacy with a macrosocial approach, such as Lebaron's recent work on central banking discourses, analysed as symbolic attempts to build their own legitimacy through language (Lebaron 2015).

Following the latter stream of research, this dissertation focuses on the symbolic struggle for the legitimacy in finance. Indeed, the economic struggle for capital, that apparently rewards the most efficient funds as expressed by benchmarks, is the result of a broader struggle for the symbols of legitimacy to manage capital. Actors of the private equity sector are ranked according to their ability to mobilise symbols that have a specific value in the field of finance (and more specifically of private equity finance). For instance, a private equity fund such as Starlight Partners is able to raise money because it is able to use its prestigious “brand” and its “track-record” (its past performances) to legitimate its claims to manage capital. Thus, the circulation of financial capital in the private equity field is determined by symbolic hierarchies, in which the position of actors depends on their ability to mobilise symbols of legitimacy.

In particular, this dissertation highlights how the symbols of legitimacy to manage capital are constructed by private equity actors. It follows an interactionist approach (Goffman 1959; Goffman’s work has already been introduced into social studies of finance by Preda 2017) that emphasises how social actors construct their selves through the presentation of specific symbols. As such, beyond describing the symbolic hierarchies at work in the private equity field, it focuses on the way individual fund managers and organisations build themselves as potential investment opportunities through the construction and accumulation of symbols in order to attract capital.

#### *The distinct stages of the legitimacy to manage capital.*

However, legitimacy struggles within finance (and private equity funds) are always local and relative to specific contexts. Private equity fund managers rarely confront themselves to the public opinion in the evaluation of their actions and their legitimacy. In other words, the struggle for capital is not general, immediate and direct: even if they sometimes direct their justification discourses to the public opinion, such discourses are rare, specific, intermediated

(by communication consultants), and only represent a small fraction of the legitimacy issues at work in the circulation of capital within the private equity sector.

The symbolic struggle for financial capital takes place at distinct levels. First, it takes place at the level of organisations. Private equity funds raise capital from financial intermediaries, their ability to manage capital being evaluated based on numerous symbolic hierarchies. However, this symbolic struggle also takes place at the microsocial level. Individuals working in private equity funds compete with each other to manage capital by investing it in financial operations and to obtain a portion of this capital in the form of personal wealth, as a result of bonuses and prestigious hierarchical positions. Here again, the competition between fund managers to manage and receive a portion of the capital circulating between funds is mediated by symbolic hierarchies used to rank individuals. Finally, this competition takes place at a macrosocial level. Beyond asset management companies, the private equity sector itself (or even finance as a whole) is engaged in a struggle to be able to manage higher portions of capital. To do so, it accumulates symbolic capital (Benquet and Bourgeron forthcoming) and mobilises it on specific stages to attract financial capital.

These various forms of symbolic struggles for capital happens on heterogenous “stages” (echoing the symbolic presentation of the self, that occurs on specific kinds of “stages” using specific kinds of “props”: Goffman 1959). On each of these stages, private equity actors are inscribed into symbolic hierarchies thanks to specific “examinations” (to use the concept of Boltanski and Thévenot 1991): these examinations are the events during which symbols are constructed and evaluated. In the same way as the chain of capital follows a complex and fluctuating architecture, the stages of the struggle for capital (in which the legitimacy to manage capital is constructed) are numerous and diverse. The distribution of capital in the financial sector is intermediated: to raise capital, private equity funds have to emphasise their legitimacy in front of external investors (frequently with the help of



fundraising consultants). Similarly, at the individual level, the ability of fund managers to increase their power on capital and to accumulate personal wealth depends on their ability to prove their legitimacy in front of their hierarchical supervisors. For instance, a “partner” (fund manager at the top of the private equity hierarchy) has to demonstrate its legitimacy to manage capital in front of investors, during very specific meetings (“investor meetings”), using very specific documents (“investor reports”) at very specific times (fundraising sessions). This dissertation details the various symbols and stages of legitimacy involved in the circulation of capital within the private equity sector.

## Literature review

Although this dissertation clearly opposes the neoclassical literature on private equity funds, its position in the social studies of finance has to be clarified. I develop a typology distinguishing works depending on the concepts that they use, in particular the concepts of networks, institutions, organisations, and cultural norms. In doing so, I establish the theoretical location of this dissertation and I detail the heterogenous set of works related to the private equity sector already published in the past.

### *Opposing the neoclassical literature on private equity funds.*

Before describing the content of the struggle for capital for private equity funds, it seems useful to describe the ideological context and justifications that the private equity sector products on itself and its role in the allocation of capital. The financial investor is a central figure in neoclassical economics, as it is made responsible for allocating capital in an efficient way. Described as a particular instance of the more general figure of the investor, the fund manager participates in allocating efficiently capital among the various available companies and business plans: private equity funds, in particular, are able to punish or reward managerial projects depending on their expected results in terms of profitability. In this perspective, the activity of the private equity manager consists in gathering enough cognitive abilities and information in order to be able to take optimal decisions that will benefit itself and society and a whole. As a consequence, financial economists such as Michael Jensen (Jensen 1991) have praised the emergence of private equity fund managers. Because of their role on the “market for corporate control” (Jensen and Ruback 1983), they were said to be able to prevent inefficient business plans from being funded and to direct abundant capital to the business plans that were the most efficient for society. In the context of the 1980s, such investors were even said to be able to improve the productivity of the US industry and to make it compete more efficiently against the Japanese one.

However, in this theoretical framework, the role of the fund manager goes beyond its participation to the elaboration of prices on the financial markets. As part of the contemporary neoliberal political project described by Foucault (2004), the decisions of investors affect many spheres of social life. For instance, the “market for corporate control” (Jensen and Ruback 1983) is described as a meritocratic way to generate and organise labour in society as a whole. In the same way as efficient managers are rewarded by this market through their ability or inability to raise more funds, the most efficient wage-earners are incentivised at all levels of the company: their efficiency is financially rewarded by investors. Therefore, the financial investor is at the core of a broader political project, a proper social order that determines the way all individuals should be involved into the process of production and rewarded. In the same way, numerous public reports on private equity (Glachant et al 2008) or impact investing (OECD 2015; Comité français sur l’investissement à impact social 2014) have made private equity investors responsible for addressing various public issues, such as deindustrialisation, unemployment or the decrease of the welfare state.

The neoclassical theory of investment fund matters to this dissertation for empirical reasons. Because of the coincidence between the emergence of private equity funds and the publication of neoclassical works on it (in particular Jensen’s works), this tradition has been a strong source of legitimation for the sector. Its concepts and arguments still feed legitimation strategies from the observed fund managers. However, from a purely theoretical point of view, the neoclassical description of private equity fund is not satisfying as it describes private equity funds as ideal and rational actors, hermetic to norms and social hierarchies. More broadly, it does not focus on the concrete activity and the social logics at work in private equity funds. This is why this dissertation is essentially based on sociological, anthropological and heterodox economic approaches of finance and investment funds.

### *Main approaches of the social studies of finance.*

Social studies of finance (i.e. the stream of research alternative to mainstream financial economics that has aimed to study finance with the tools and concepts of sociology, anthropology, history, geography, and unorthodox economics) as they emerged since the 1990s have been organised in four distinct approaches (in the same way as economic sociology in general, as expressed in the typologies of Swedberg 2003; Beckert 2011), each relying on a specific conceptual framework to understand finance: approaches based on the concepts of networks, organisations, institutions, and culture. This sub-section details the three first of these approaches and emphasises why they are not relevant for this dissertation, before describing more in depth the fourth framework, in which this dissertation takes place.

The functioning of financial markets has been studied using the concepts of networks. These works use the concept of networks to emphasise how markets are embedded in social networks (Granovetter 1985 for markets in general; Uzzi 1999 for a similar study on financial markets) that can take different shapes, underlining for instance the role of trust in the structuration of markets (Uzzi and Lancaster 2004), the role of status in the social relations between actors (Karpik 1999; Lazega and van Duijn 1997), and how the power of actors depends on their nature and position in their network (Podolny 1993, 2001). Social scientists have developed network analyses on the empirical field of corporate finance (close to the private equity one), in particular through the article of Boussard, Godechot and Woloszko (2017) that highlights the role of ranking and interpersonal links in operations on the M&A market, or the article of Foureault (2018) on the structuration of the private equity field in France.

Similarly, a similar stream of social sciences works focuses on the concept of organisations to underline how the logics of internal structuration and power relations affects the investment decisions of financial actors. In the private equity case, the concept of

organisation has been developed by works (Foureault 2014, 2018) that have underlined how the devices of private equity (such as debt leverage, in the case of LBO operations) could be used as “organisational weapons” to weigh on private equity-owned companies.

Recent works in economic sociology have also evidenced the institutional dimension of the construction of the financial sector. Through the works of Fligstein (1991, 2000), institutionalist works have underlined how the financialisation of companies (fostered by private equity funds) has been allowed and encouraged by public regulations. Such an approach has been extended to numerous other instances of financialisation, such as the financialisation of sovereign debt (Lagna 2015; Lemoine 2016) or the financialisation of the UK industrial policy (Davis and Walsh 2016). More precisely, other works have evidenced how finance is involved in the construction of its own institutional environment, being a “discreet regulator” on its own (Huault and Richard 2012). This institutional approach has been developed in the case of the private equity sector: Benquet and Bourgeron (forthcoming) show how the norms that rule the circulation of capital within the private equity sector has been coproduced between the sector and public authorities. Similarly, insisting on the arbitrariness of fee pricing by private equity fund managers in terms of economic rationality (fees do not reflect the “cost of production” of the financial service), Froud and Williams (2007) have detailed the emergence of the institutions required by the establishment of a “value extraction culture” in the private equity sector.

#### *The influence of culture on financial actors.*

Finally, the historical mutations of capitalism have been influenced by cultural factors. Using a framework that considers formulas and technical devices as proper actors in the social world (inspired both by the actor-network theory, as in Callon 1999, and by the “strong programme” described by Barnes et al 1996), sociological works have emphasised the strength of some cultural representations in financial practices, such as formulas, financial theories or broader

“evaluation cultures” (MacKenzie et al 2007; MacKenzie 2011a, 2011b). For instance, in their article about option pricing on the Chicago Board of Trade, MacKenzie and Millo (2003) study the relationship between legitimization issues (option traders using the Black-Scholes formula as a way to sever the association between option trading, on the one side, and gambling or market manipulation, on the other side), socio-technical devices (this new way of pricing options being embedded into technical objects), and the actual behaviour of financial markets, through a critique of the performativity concept.

The influence of cultural representations has also been emphasised in a different, more Weberian theoretical framework. A recent stream of research has evidenced the way financiers’ practices can be understood globally thanks to financiers’ common use of cultural “figures”. This includes namely the “figure of the investor”, as described by Preda (2005), Ortiz (2014b) and Montagne (2014). Elaborated in relationship with the “political project” of “free investors” and “efficient markets” (Ortiz 2013, 2014b), this figure is implicitly referred to by financiers when they have to take everyday decisions – despite the dissemination of their decisions through numerous decentralised and asynchronous microsocial decisions. In her ethnography of investment banking, Karen Ho (2009) shows a similar phenomenon by studying how the cultural norms of finance affect both financiers’ trajectories and operations, turning finance into a force for “liquidation”. Similarly, the recent evolutions of capitalism have also been investigated using moral concepts. The opposition between alternative political and moral views have been emphasised as a driving force for capitalism in recent sociological works, as in Boltanski and Chiapello (1999) that describe the role of rhetorical “cities” in the evolution of capitalism, or as in Stark (2011) that describes the role of dissonance between alternative moral environments in the economy. These moral views have been built socially through rhetorical works (Boltanski and Thevenot 1991; Lordon 2001;

Boussard 2013) and technical devices (Chiapello and Godefroy 2017), then influencing economic actors.

Most of the sociological works published on the private equity sector have developed such a cultural approach. Based on interviews with fund managers, these articles have highlighted various aspects of the profession of private equity investor, such as the relationship to time and value (Souleles 2015) and the norms surrounding the transaction and the setting of the transaction price (Turco and Zuckerman 2014; Souleles 2017; Benquet 2018). This dissertation will also build on works published on very similar sectors, such as the merger and acquisition (M&A) one, that have highlighted the role of the contemporary devices through which the sales of private companies are performed (see Boussard 2015; Boussard and Dujarier 2014).

These moral and cultural approaches of economic and financial practices reveal common patterns behind the apparently particular and disseminated actions of financiers. These patterns are the product of contingent exchanges between cultural representations through time – these cultural representations being based on deliberate political projects or moral views of the world. As such, in the following dissertation, I intend to use these cultural and moral approaches to economic phenomena, to articulate the empirical ethnographic observation of a financial sector (the private equity industry) with broader shifts within capitalism, such as financialisation and the emergence of the “shareholder value” movement.

#### *Understanding the circulation of capital in financial markets.*

In particular, this dissertation focuses on how to understand from a cultural point of view the circulation of capital in financial markets. Economic sociology has recently focused on the study of the construction of markets, from a sociological point of view (following in particular the fruitful work of White 1981; for a more detailed literature review of the sociology of markets, see Swedberg 2005 and Fligstein and Dauter 2007). For example, authors such as

Franck Cochoy (Cochoy and Dubuisson-Quellier 2013) evidence how specific kinds of market actors are constructed, focusing on their history and legal embedding. They also highlight the social processes involved in the construction of prices in markets, for instance through the study of the calculation devices responsible for them (Callon and Muniesa 2005). Similarly, ethnographic works emphasise the role of culture in the making of markets: Zelizer's work participates to this approach: in her research on the life insurance sector, Zelizer (2017 [1979]) evidences how a specific market is embedded into moral norms, including as a consequence issues of moral legitimacy in the construction and evolution of this market. She shows that markets and morals are intertwined (Zelizer 2010), so that apparently financial activities are actually determined by moral beliefs.

When applied to financial markets, this framework enables social scientists to understand the circulation of capital. Indeed, as Hart and Ortiz (2014) claim it (calling for an anthropology of money and finance careful to the issue of capitalism), the circulation of capital and the logics of profit extraction are at stake in the study of financial markets. Articles developing the cultural processes involved in the elaboration of prices in financial markets (such as MacKenzie and Millo 2003; MacKenzie 2006) help to understand the factors involved in the flows of capital. For instance, in the more specific case of the private equity sector, the work of Marlène Benquet (2018) highlights the contemporary growing interest for the issue of capitalism through the concept of accumulation: she shows how the determination of the price of companies by the private equity sector is intrinsically (but not exclusively) linked to an imperative of wealth accumulation by the various intermediaries involved in private equity transactions.

### *Ethnographies of finance.*

Finally, this dissertation has to be related to another stream of research from an empirical point of view (although each of the works evoked in this sub-section could also be positioned



in the broader typologies evoked above): ethnographies of finance. Ethnographic works on finance have developed since the 1990s, investigating the cultural and material aspects of various financial sectors.

In a framework careful to professional representations, Abolafia (1998) has studied ethnographically the stocks, bonds and futures markets in New York, highlighting the role of social control and norms in the more or less predatory or self-restraining behaviours of financial actors on these markets. Similarly, Ho (2009) has studied the US investment banking sector through a long-term ethnography, highlighting how the movement of restructuring and downsizing imposed by the financial sector to the US industry could be understood as the effect of the cultural norms of finance itself. By describing the cultural representations of investment bankers in broad aspects of their lives (related to their social origins, their gender, their ethnic background, their recruitment and professional trajectory), she has emphasised the focus on “liquidity” in the professional norms of investment bankers and linked this mentality to the promotion of liquidation and restructuring by investment bankers to the US industry as a whole. Focusing on professional representations but with a slightly different object, Preda (2017) has investigated ethnographically the community of non-professional traders and brokers. In particular, he has shown (in a Goffmanian perspective: Goffman 1959) how financial markets involvement affects the self-representation of amateur traders, giving them the feeling of having a particular status in society.

In a rather science and technique studies (STS)-inspired background, Zaloom (2006) describes the progressive shift of trading pits into digital market places and the way traders and brokers envision this transformation of finance. In doing so, she also gathers interesting empirical facts related to the materiality of markets, both the bodies (as she emphasises the issue of gender and masculinity in trading floors) and socio-technical devices. Similarly, Lépinay (2011) describes the making of financial derivatives in a large French international

investment bank, focusing on the diversity of actors involved in that action – both human and non-human ones, people but also formulas, symbols, tools, techniques.

Focusing more explicitly on capital flows in a political perspective, Ortiz (2014a, 2017) has performed several ethnographies of debt traders, brokers, and transnational M&A bankers. Trying to find anthropological explanations to the circulation of capital in the contemporary financial world, he has emphasised how the everyday actions of financial actors constantly refer to a broader “political project” framed in neoclassical economics, but also in national representations. With a different theoretical framework, Godechot (2005, 2007, 2017) has studied traders from an ethnographic perspective, investigating their practices in order to address several sociological issues, ranging from the explanation of high remunerations in finance (Godechot 2005, 2007, 2017) to the understanding of the determinants at work in the choice of analysis paradigms by traders (Godechot 2001, 2016). For instance, using observations in both HR firms and trading desks, he has described how these “working riches” manage to appropriate profit despite not being formally considered as capitalists. Using a similar material, he has shown how the choice of the paradigm of mathematical arbitrage, economic analysis or chartist analysis by traders has to be understood in relationship with the symbolic hierarchies (and the “aesthetic” categories) of trading rooms (Godechot 2016). With yet another different theoretical and empirical perspective, Harrington (2016) has studied the profession of wealth managers through a particularly long and detailed participant ethnography. She has shown how wealth managers are involved in the distribution of capital around the world, in particular the organisation of tax evasion, by advising and influencing wealthy people according to their own professional norms and cultural representations of how capital should be managed.

## **Empirical material**

### *Observation n°1: Impact Equity.*

This dissertation is empirically grounded on two ethnographic observations of private equity funds. First, my observation of Impact Equity. In 2015, after my master's dissertation on the valuation methods of M&A bankers, I decided to undertake interviews with members of private equity funds. In particular, I had an interview with Lucie, an associate at Impact Equity. After having talked about my sociological approach by email and during the beginning of the interview, I asked her if she thought it possible to perform a sociological observation in the fund. She replied that she did not think so, but that she would ask the partners of the fund about it. After a few emails, she put me in touch with the president of Impact Equity, that seemed "interested" in my sociological research. Insisting on the social aspect of Impact Equity and how my sociological research could contribute to the activity of the fund, I managed to get an interview with the partners of the fund, and then the right to observe them for 3 months, from September to December 2015, as part of a remunerated internship during which I had to "help the fund in its reflection" about how to include "social impact" in its "investment strategy".

Impact Equity is a small impact investing fund based in Paris. Located in the North-East of Paris (they move during my observation, in a way that enables me to observe how private equity places are constructed), the fund has raised €100m since its first fundraising session in the early 2010s and has performed three fundraising sessions overall (the third one takes place while I am observing the fund). It includes 6 members, with ranks ranging from intern to president – four of them originate from the standard financial or banking industry, the fifth one has an atypical trajectory and the sixth one is still a student. The fund is specialised in "small cap" investments, according to its members, that is to say small and medium businesses with a value ranging from 2 to 20 million euros. The fund practices what

other actors in the sector call “growth capital”: in other words, it buys profitable companies, sometimes with a small debt leverage (though far lower debt than in LBO operations), in order to finance future investments for its portfolio companies.

However, Impact Equity is not a standard private equity fund. It is also an “impact investing” one, that is to say a fund specialised in generating “social return” in addition to its financial return on invested capital. Indeed, the fund invests in companies that produce what impact investors call “social impact”. For instance, it invests in companies that hire employees in poor neighbourhoods, companies that have a strong ethnic or gender diversity in their staff, or other kinds of impacts that fund managers try to “materialise”. Most of Impact Equity’s investors are standard investors (insurance companies, banks, public and private funds of funds). However, they accept a slightly lower financial return than what they would require from a standard private equity fund, in exchange for the fund’s social impact.

This specific observation field, even if it could weaken the general reach of my observation (as Impact Equity is not a standard private equity fund), seems interesting in two respects. First, while observing this fund I was able to study how fund managers could create a new financial market (impact investing) by legitimising social investments and emphasising the need for them in order to justify their own existence. Therefore, this observation is useful to understand the logics of self-justification that are at work in the impact investment sector and that have been at work in a broader way in the private equity sector when it was emerging (see Bourgeron and Benquet forthcoming). Furthermore, in the same way as the logic of diversity in Starlight Partners, the development of impact investing practices participates to a broader legitimization trend in the private equity world. In this respect, this observation allows me to describe a set of moral and political justification logics at work in the contemporary evolution of the private equity sector.

During this observation, I have been able to receive emails, participate to discussions, internal meetings and some external meetings of the fund. For instance, I was able to participate to the “deal flow” meeting of Friday mornings, during which fund managers were talking about the “investment opportunities” the fund had received in the previous week or that are currently being examined by the fund. I also attended several “pitch” meetings with “entrepreneurs”, that is to say corporate managers looking for capital, and meetings involving fund managers and the managers of a company that was being targeted, in order to finalise the “deal” (the investment was cancelled after my departure). Finally, I was invited to events out of the fund, namely lunches and the annual corporate seminar of the fund, that took place during two days in an abbey, during which fund managers intended to revise their “investment strategy” (both in terms of financial and social impact criteria).

My ethnography continued beyond the formal period of observation. A few months after my observation, I participated to a seminar organised at the EHESS (Paris) by Eve Chiapello and presented a paper there (the seminar took place in April 2016 whereas I left Impact Equity in December 2015). Quite negligently (I was not expecting that my interviewees would take it personally), as I had told Impact Equity members that I would let them know about the results of my study, I sent them a preliminary version of my paper. After a few days of silence, I received an email from one of the partners of the fund: “Théo, we have to talk regarding some points that do not suit us in your paper. When would you be available for a call tomorrow?” Then, a few hours later, a very long and extremely negative email from the analyst of the fund, offended by the way I described their activity. In other words, the formulations of the papers had been perceived very offensively by my interviewees, that interpreted it as an attack against their activity and social commitment. Following the sending of this paper to fund managers, I had to defuse the conflict, by calling three of the fund members that accepted my calls during twenty minutes to an hour each, to

exchange long emails with the associate, and to go physically in the office of the fund to have a discussion with them. In the afterwards, before the seminar, Impact Equity members sent me several “markup versions” (with comments as marginal notes) before my talk at Eve Chiapello’s seminar, these comments putting myself in a deep embarrassment regarding my research deontology and the final presentation of the seminar, but revealing in the same time in an original way how Impact Equity members considered their profession of (impact) fund managers.

Observation n°2: Starlight Partners.

My second observation was linked to the first one. Despite the conflict that happened at the end of my Impact Equity observation, I stayed on good terms with a partner of Impact Equity that had begun his career in a large LBO fund, Starlight Partners. He put me in touch with the president of Starlight Partners, Charles, that put me in touch with its CEO, Marc. During a preliminary phone interview with Marc, I detailed the idea of a sociological observation and told him my interest for such an observation in the fund. After several months and several reminders, he let me know that he was willing to have an interview with me and the general secretary (in charge of stewardship) of the fund. During this interview, I learnt that I would begin a (non-remunerated) internship a few weeks later, in order to study how to increase the (gender, ethnic, social) diversity of the deal team.

This observation occurred from June to July 2016. Initially, I was expected to be present in the offices of the fund only two days per week, with an implicit agreement on the fact that I could extend the weekly duration of my stay to the whole week should my observation in the fund be well-accepted by fund managers. That happened effectively, and I was careful to take interview appointments all over the week in order to be able to have reasons to go to Starlight Partners each day. During my stay, my presence was associated to the power of Marc, the CEO of the fund, and I had the feeling that my interviews were

perceived as ways to communicate with Marc, which raised some methodological issues, or as expressions of interest from the hierarchy of the fund, a bit similar to the annual interviews during which the career of each fund member is evaluated. To avoid potential resentments that could arise from an unequal treatment of fund managers in the very competitive atmosphere of Starlight, Marc finally asked me to do interviews with all the fund members, including middle-office and back-office members, resulting in 43 interviews of approximately one hour in two months.

The atmosphere of Starlight Partners was more hostile than Impact Equity's one. As I was perceived as the representative of Marc, at first it was hard to observe real interactions in the fund. I began by only doing interviews; then, after a few weeks, I was able to find individuals that were less hostile than others and that let me observe their daily activity. I was also invited to the corporate seminar of Starlight Partners for one day, in a castle used as a conference and seminar centre for companies. I attended the "work in progress" presentation by Marc to other fund members, I was able to perform several interviews there with fund members usually based in London, and I attended the conference of an external speaker (a starred chef) that was talking about "work excellence" to Starlight members.

### Interviews

I performed 9 interviews with Impact Equity members and 43 with Starlight Partners members. In addition, as a result of my Impact Equity observation and before my arrival at Starlight Partners, I also performed two interviews with the president of Starlight Partners (also a historical character in the French private equity sector) and a third one with a partner (and an important person in the French private equity sector) of a large French LBO fund, Vendôme Capital. The content of these interviews changed depending on the context. With Impact Equity managers, as interviewees were relatively friendly and open to questions, I was able to perform semi-directive interviews on topics that were interesting to me (such as their

view on the value of companies, on how a fund works, on how buyout operations are performed, on their personal trajectories, their vision of the profession of private equity investor, their personal views on religion and politics). With Starlight Partners managers, the content of my interviews was more constrained by the fact that they were taking place in a specific framework (I was a diversity intern) and that interviewees were expecting me to focus on some specific topics (about their own trajectory, about the diversity issue, which has a real sociological interest and is evoked in part 1). These semi-directive interviews were more focused on careers and how fund managers see themselves than on the content of operations, even if some interviews revealed details about that.

#### *Other empirical material*

This dissertation is based on annex empirical materials that are not directly related to private equity fund managers, but that are sometimes helpful to inform my sociological perspective on them. This includes the material that I have accumulated during my master's and my research internship at Edinburgh, about M&A bankers and valuation practices during M&A operations (the acquisition of a company by a private equity fund being a kind of M&A operation). During my pre-doctoral research, I have had 12 interviews of one hour with M&A bankers of all ranks; most of these interviews relate to valuation methods and how the price of transactions is established. These interviews are useful because there is a strong porosity between the practices of M&A bankers and those of private equity fund managers, as many fund managers come from M&A banking (see part 2 of this dissertation).



## **Plan of the dissertation**

This dissertation is organised in three main parts. First, it focuses on how private equity actors use matter as a symbolic resource to demonstrate their legitimacy (part 1). It details how space is used by fund managers to convey meanings about their activity, both at the level of organisations and at a microsocial level (chapter 1). It also shows how bodies are selected, transformed, and interpreted by fund managers – and how these body interpretations are subject to historical changes (chapter 2).

Secondly, it emphasises how fund managers engage in the struggle for capital at an individual level, struggling for the status of partner (part 2). It details the use of symbols from both the academic and the corporate finance worlds (chapter 3). Then, it highlights how the trajectories of fund managers within the private equity sector are organised by implicit symbolic hierarchies in the sector and labelling practices (chapter 4).

Thirdly, it details how legitimation practices can be found in the way financial operations are performed (part 3). It shows how fund managers have to associate potential operations with the symbols of the good deal, in order to convince their hierarchy and their investors of the performance of the deal (chapter 5). It details how these managers also construct symbolically the performance of their own funds to convince investors (chapter 6).

**Part 1. Barbarians in *hôtels particuliers*:  
private equity and the symbolic use of  
materiality**

## Introduction

“Free market”, asserts Milton Friedman (1962), “distinguishes economic efficiency from other irrelevant characteristics”. By “irrelevant characteristics”, Friedman designates among other the body characteristics of individuals (such as sex, skin colour or age) and the characteristics tied to their geographical location (such as the appearance of the building they are working at or their nationality). This principle is later applied more specifically to capital markets by Michael Jensen (1991). Evoking the case of private equity funds, Jensen asserts that contemporary financial industries allocate capitals on the sole criterion of the “information” and the “business models” of corporate actors, de facto excluding all body, national or material criteria.

Opposing this neoclassical theory of financial markets, sociology and history have evidenced the existence of body and space preferences in the allocation of financial capital. Regarding the body, they have underlined how racism and sexism, as they allow the hierarchisation of workers and capital sources, are necessary to the extraction of profit and to the perpetuation of capitalism through time, thus becoming a structural component of the circulation of capital in general and more specifically financial capital (Wallerstein 1988; Balibar 2007). In the same way, these works have highlighted how space and matter are hierarchised in the circulation of capital. The global circulation of capital is based on the distinction between centres and peripheries, between places where capital flows easily and places where capital is rare and therefore well-remunerated (Wallerstein 1979; Braudel 1979). These space hierarchies within economic world systems get expressed through the medium of other hierarchies, such as national ones (Balibar 2007).

In this part, I intend to study the relationship between finance and matter (here, space and bodies) within the concrete contemporary financial work of private equity fund managers. Indeed, beyond their official role of capital allocation to projects depending on their financial

quality, this part shows that private equity funds can also be understood as specific instance of allocation of power over capital to individuals and places, depending on their body and their geographical location. In doing so, this dissertation is involved in an emerging trend of works aiming to study the relationship between financial work and body, for instance through the issues of sexism (evidencing the under-representation and the domination of women in the financial industry: McDowell 1997; Roth 2006; Michel 2011; Boussard 2016; Blanchard et al 2013), racism (evidencing a similar phenomenon, although in less numerous works: Turco 2010; Kish et Leroy 2015) or both (see Mignot-Gérard et al 2018). It also participates in the emerging trend of works focusing on how finance interprets the space through specific categories, particularly the global/local distinction (Ho 2005) and national categories (Ortiz 2017). As such, this part participates in a broader interest in sociology for the materiality of finance. Contradicting claims according to which the modern rise of technological finance would disembody finance from space and bodies (O'Brien 1992), recent works have highlighted the remaining importance of matter at the heart of contemporary finance (among numerous remarkable works, Beunza and Stark 2004; MacKenzie et al 2012). In particular, MacKenzie et al (2012) have shown how new material practices raise legitimacy issues in contemporary high frequency trading. This part intends to highlight similar relationships between matter and morals in finance, through the use of symbols by fund managers.

However, the project of this part seems at first counter-intuitive, as materiality appears to be absent from the concrete work of fund managers. Indeed, in the contemporary financial world, private equity fund managers hold the position of employees in organisation that play the official role of capital intermediation between capital holders, on the one side, and the allocation of capital in the economic sphere, on the other side. Thus, the activity of these financial organisations consists in using the workforce of employees to raise money, invest it, manage portfolio companies and divest in a way that maximises the financial performance of

the asset management company. As such, the body does not play an apparent role in their work. Financial tasks require no use of physical strength: most of the time, my observation shows that they concretely consist in exchanging emails, having phone talks with company managers or financial service providers, scheduling meetings, writing investment memorandums on Word and investment models on Excel. When the body is involved in the financial activity of the fund managers I observed, it is above all involved as the physical grounding of an intellectual activity: the body enables fund managers to produce an essentially intellectual, virtual activity – sometimes during long continuous periods of time. In addition, materiality does not seem to participate to the content of the service that fund managers deliver: the esthetical appearance, the body characteristics of fund managers, their nationality, the appearance of the building where they work does not affect the service that they sell to capital holders – at least, contrary to professions based on image, financial services are not considered as being primarily aesthetic ones. Similarly, the role of space does not seem major in contemporary private equity finance – and is even often explicitly negated by fund managers themselves in their discourses.

In order to reintroduce the issue of materiality, financial work should be studied at the level of symbols. Indeed, beyond their objective material content, financial activities are hierarchised and understood in a symbolic way. These hierarchies are embodied in body and geographical categories. In terms of body categories, the classical literature in sociology has shown how the use of “body techniques” (Mauss 1950) could be an object of study for sociologists: these techniques are influenced by the culture and social actors give them specific meanings. Therefore, the body embeds social interpretations and meanings (Bourdieu 1977). Regarding gender categories (i.e. social categories that are associated to bodies by actors), for instance, prestigious tasks involving risk-taking are frequently associated to masculinity (De Goede 2004; Maltby and Rutterford 2012) whereas other less prestigious

tasks are associated to femininity and dedicated to women (Boussard 2016). Similarly, financial performance is often symbolically embodied by young, fit, athletic bodies (McDowell and Court 1994). Reciprocally, the body of fund managers themselves is used as a symbol, the production of such symbols being part of the financial work (as Boni-Le Goff (2012) highlights it regarding consultants). Through their aesthetic perfection and their fitness, bodies embody the financial performance of fund managers (McDowell and Court 1994). Through the physical sufferings and the displaying of emotions (Hassoun 2005) that result from financiers' "workaholic" behaviours (Roth 2006), financial bodies justify the high remuneration they receive.

Similarly, space is used to assert the dominance of finance in a symbolic way. Classical sociologists have shown how the space and the occupation of the space by societies reflect social structures (Halbwachs 1920, 1970). Regarding contemporary finance, financial organisations use the central and historical locations that they occupy in global cities (Sassen 1996) to display and strengthen their institutional prestige. The way fund managers use prestigious "addresses" to assert their centrality in their field has been shown by Tadjeddine (2010; 2016). Looking at the dynamics of geographical relocations of investment banks in the Manhattan space, Karen Ho (2009) has also highlighted how the geographical location of these organisations is the product of financial logics (constant relocations being linked to the "liquidative" mindset of investment bankers) and how it reveals their location in the financial hierarchy of investment banks. Space is also actively used at the level of microstructures (Knorr Cetina and Bruegger 2002; Fischer 1990), through material symbols such as the disposition of offices or their size (see for instance Beunza and Stark 2004), as a way to embody the relations and hierarchies between organisations and individuals.

This part studies the relationship between capital allocation, space and body – and more precisely, the symbolic uses of space and body within the struggle for capital in the

context of private equity finance. This struggle uses matter as part of symbolic mechanisms: in order to be accepted as legitimate capital managers (i.e. in order to raise funds), fund managers have to embody legitimate cultural figures. Body and space are tools allowing fund managers to fit the figure of the investor by producing its symbols. More broadly, body and space are also used to legitimate the figure of the investor in its relationship with the rest of society: for instance, the theatrical display of the sufferings of fund managers' body should also be understood as part of the symbolic capital production by the financial sector as a whole – this production being in turn a necessary instrument to legitimate the appropriation of profit by financial actors. Therefore, the mechanisms through which private equity finance selects and transforms the bodies it elects to allocate capital rely on symbolic and moral groundings.

However, the observation of fund managers' concrete work evidences how these groundings, far from being fixed once and for all, are contested and tend to change through time. As this part will show, the geographical embedding of private equity finance should be envisioned as a proper social field, in which newcomers try to distinguish themselves from older institutions by using their peripheral position as a strength, thus contesting the way private equity finance interprets space – as in the case of Impact Equity and its offices located in the poor Eastern side of Paris. Similarly, this chapter underlines how finance has grasped the issue of body “diversity” within its management team as a new source of justification and legitimacy. In this context, the private equity sector tends to redefine its symbolic and moral scale of bodies. Thus, even if private equity finance appears to be a place in which bodies and places are symbolically hierarchised, this hierarchy depends on historically changing criteria, that I intend to detail in this part.

**Chapter 1. The spatial embodiment of private equity finance:  
spatial symbols, the spatialisation of financial hierarchies, and  
the hierarchisation of space according to financial categories**



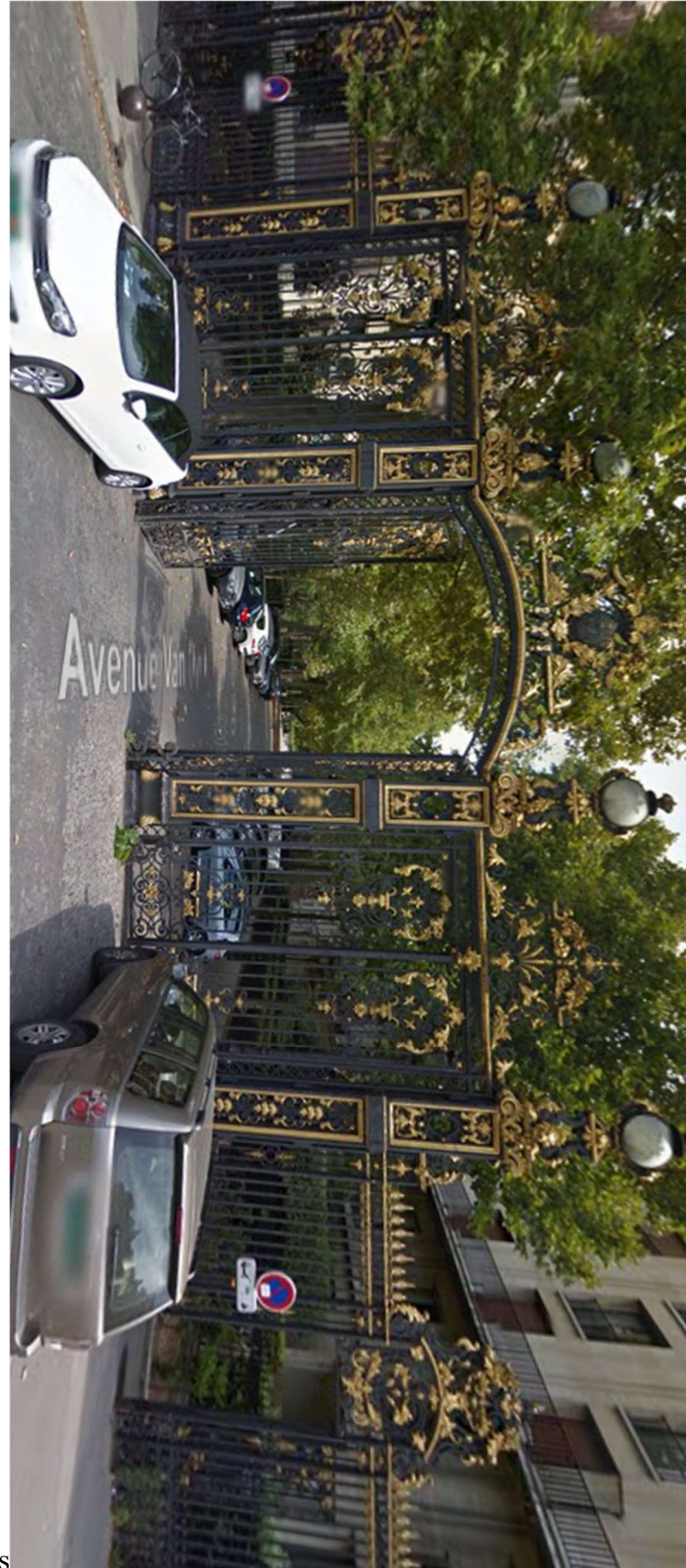
## **Section 1. Starlight Partners and Impact Equity in the space of Paris: the “golden triangle” as a spatial embodiment of the social field of fund managers**

*Starlight Partners, an hotel particulier at the centre of Paris’ “golden triangle”.*

As I go to a preliminary interview within Starlight Partners’ offices, in order to be allowed to observe the fund, I enter the 8<sup>th</sup> district of Paris. I take the underground line 6 (full of people wearing suits at peak hour) until the Pereire station. In front of the station, I remember a café where I had a sociological interview with an M&A banker a few months earlier. All around the place, there are tailors and shoes’ shops, most of them masculine and up-market (Alain Figaret, De Fursac, Sandro, The Kooples, J. M. Weston), restaurants open from Monday to Saturday, wine merchants and very numerous bank branches. I walk through the Pereire street during a few hundred meters: I have an appointment at the offices of Starlight Partners, further in the street. I walk past the Singapore embassy, an LCL bank branch, the Cash Advisory Corporate Finance offices, the Qatar National Bank headquarters, a Crédit coopératif bank branch, yet another Société générale bank branch and the Société Financière Saint-Sacre’s offices.

Finally, I find the building of Starlight Partners. Despite the fact that Starlight Partners is one of the biggest private equity investment firms in France, its building is hard to distinguish from neighbouring buildings: located in a luxurious but entirely anonymous *hôtel particulier* (a large townhouse with an interior court and garden), there are only two grey *porte-cochères* at street level, one of them open and the other one closed, and four tinted windows. To the external observer, the only sign of Starlight Partners’ activity is visible through the line of grey and black saloon cars (most of them taxis) waiting in front of the offices of the fund. I enter the gates and arrive in front of a white cut stone cube, with another set of transparent control gates. The gates do not open automatically. For the first time, I see on the transparent gate the black logo of Starlight Partners. Behind them, there is the reception

hall and at the end of the hall, a desk with two women, from African origin, in identical blue suits with Starlight Partners' logos on the chest. When they see me between the two sets of gates, they do not react. With my Zara jacket, my notepad and the Google map on my phone, I look more like a lost tourist than a member of Starlight Partners – they know the appearance of all of them. At last, I find the interphone and explain that I have an appointment with Marc, the CEO of the fund. After a few seconds, the door opens. Once the principle of the observation is accepted with Marc, I am given a magnetic card to operate the second set of gates. However, the women at the desk (that work for an external company and change quite often) use to recognise me and to open me as soon as they see me entering – giving myself the ephemeral feeling of being an important person.



*Figure: one of the entrances of the Monceau park, whose neighbourhood concentrates numerous funds similar to Starlight Partners; from an hotel particulier turned into the Nissim de Camondo museum (Franco-Turkish bankers of the 19<sup>th</sup> century) to the current Paris offices of Morgan Stanley and European Investment Bank, the buildings all around the (partly privatised) park discretely remind the walker of the history of France's modern high finance*



*Figure: Google Street View of the building of a fund similar to Starlight Partners – the left side of the gate is open from 9am to 9pm; not visible in the picture, taxis and LeCab (an Uber-like app for business customers) cars are perpetually waiting in front of the entrance of the fund*

*Impact Equity, a former family flat at the margins of Paris' business district.*

The offices of Impact Equity are as discrete as Starlight Partners' ones but located in a far less luxurious place. Two kilometres East of the "golden triangle", still on the right river of Paris and close to the Haussmannian *Grands Boulevards*, Impact Equity's building is located in a less prestigious block and in a quite trivial street. Previously a residential building now converted into an office-space one, there are many corporate logos on the gate of the building (but not Impact Equity's one). I enter the building by typing a code; there is no hostess to welcome me. At the third floor of the building, the door can be opened with a key – I am provided with a set of keys at the beginning of my observation. The other floors include, namely, a start-up of YouTube broadcasters, an advisory firm specialised in human resources, and an Internet services company.





*Figure: Google Street View of Impact Equity's building; Impact Equity is located at the third floor of the building; the ground floor of neighbouring buildings hosts cheap restaurants, such as a Chinese restaurant or a small creperie*

*From family flats to prestigious historical buildings, “barbarians” to institutions.*

The observation of Starlight Partners and Impact Equity shows two opposed kinds of buildings for asset management companies, the central *hotel particulier* and the peripheral family flat converted into office space, corresponding to the stage of development of each of the two companies. In the case of Impact Equity, the company’s managers have rented a flat after having raised their first fund. Then, they move twice during my observation, a first time to a temporary location and a second time to their final location in a larger flat. In both cases, Impact Equity’s successive flats were not converted into office space by the fund itself but by previous tenants. However, the internal structure of the flat remains visible (and similar to the structure described later by Starlight’s partner). In the temporary location, that I observe most of the time during my stay in the company, the two former bedrooms are dedicated to the two partners, the living room is dedicated to the three other permanent members of the fund, the bathroom and kitchen keep their original dedication and the two remaining rooms are dedicated to receiving entrepreneurs and storing the archives of the fund. Finally, Impact Equity members are able to move because of their second fundraising, that allows them to increase the rent they pay and make them willing to find a more prestigious, larger place – even if it remains out of the “golden triangle”.

Regarding Starlight Partners, before the prestigious location that it is now renting, the asset management company had been renting two different buildings. From the 1990s to the early 2000s, the fund used to rent a family flat converted into office space out of the “golden triangle”, between the northern edge of the triangle and the peripheral boulevard of Paris, in a district far less prestigious than the very central 8<sup>th</sup> district. That was the time of the creation of the fund and the first fundraising sessions, during the emergence of the private equity sector in France. Some members of the fund remain from this time (out of the 50 members of the fund, only 3 remain: the president, a partner of the fund and the assistant of the president)

– they talk about this period with nostalgia, describing it as a period of innovation (as opposed to the “industrialisation” that followed) and echoing the current situation of Impact Equity:

Jean-François, historical partner: And so that was, we were in a flat... An Haussmannian flat... It was, we were... There was a living room, we were four in the living room, we had turned it into an office... Each of us had... Charles [Starlight’s current president] and Jean-Louis [a partner that left the fund a few years ago] had their respective offices in each of the two bedrooms, and then...

Question: Yeah...

Jean-François: The reception was in the entry, yes... So that was more a kind of ‘start-up’ mood, that was more... (...) Well, that was not the same world [as today], yes...

The opposition between the past location of Starlight Partners and its current one, or between the location of Starlight Partners and the location of Impact Equity, has also to be understood with respect to the need for symbolic legitimacy of financial actors. This need results from the history of private equity: this financial sector is a recent one, it has emerged in the US in the 1970s and in France in the 1980s (Benquet and Bourgeron forthcoming). As such, it lacked legitimacy during a long time, be it legitimacy in regard with policymakers, capital holders or the public opinion: in the 1990s, American venture capitalists were still called “barbarians” (as in Burrough and Heylar’s (1989) book), a negative metaphor that French private equity fund managers sometimes also use to designate themselves.

To the contrary, the material location of private equity funds enables them to conceal this recent and sometimes negative history, by giving them the physical appearance of legitimate and historical institutions. In this respect, investment funds such as Starlight Partners are frequently located in *hotels particuliers*, prestigious and historical places hosting powerful institutions since centuries. Being close to the parc Monceau, a fund like Starlight Partners is located at a 10-minute walk from other very legitimate institutions, such as the presidential Elysée Palace – during my observation, I even attend a conference from a corporate finance consulting firm at the *pavillon Gabriel*, a seminar venue located literally in



front of the Elysée Palace. The website of the organisation that is responsible for renting Starlight Partners' building explicitly emphasises the need for legitimacy ("prestige") in its description of the district of the building<sup>6</sup>:

Renting office space in the 8<sup>th</sup> district provides you with the opportunity to work in the centre of Paris. Appreciated by people with very high income, this district is a high place of Paris tourism thanks to mythical locations such as the Champs-Élysées avenue, the Arc de Triomphe and the Madeleine church. (...) The international outreach acquired by companies with headquarters in Paris 8<sup>th</sup> is well established. The flows of tourists and the wealthy population of the district give prestige to your company. The district is an important place for financial activities, services and luxury tourism.

The demonstration of the centrality of the private equity industry, through the appropriation of historical and institutional buildings, produces real effects on the social actors that interact with fund managers. Walking in the reception hall of Starlight Partners, it is very frequent to see managers from targeted or bought out companies waiting for meetings with fund managers. They sit in the small reception room close to the hostesses, waiting to be introduced in a meeting room by the fund manager they have a meeting with. Strikingly, these managers constantly look intimidated when they wait in Starlight Partners' lobby: they don't talk, they stare at the glazed walls, at the wooden floor, at the busy fund managers that go in and out of the reception hall. The building of Starlight Partners puts them directly in a domination situation, even before they meet the fund managers they are waiting for. To the contrary, the use of voluntarily peripheral and modest buildings, as in the case of Impact Equity, could reveal a will not to put corporate managers and corporate finance consultants in the situation of being dominated by fund managers. Therefore, the prestige of building is part

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<sup>6</sup> Source: website of BNP Professional Real Estate, the company in charge of renting Starlight Partners' building. The exact address cannot be provided in this dissertation for confidentiality matters.

of the apparatus through which the power and legitimacy of the financial investor is asserted and made sensible to those who have to deal with them.

*The gathering of private equity funds around the “golden triangle” spatial field.*

The location of one of the most important French investment funds in an *hotel particulier* close to the *parc Monceau* is the product of a set of social factors that can be explained. When he introduced me to Starlight’s offices, Marc (the CEO of the fund) told me about the choice of the *hotel particulier* the fund currently occupies. Starlight Partners had moved two years earlier in its current building. Marc told me that when he arrived, ten years ago, Starlight was located in another building, which was at the centre of the “golden triangle” – whereas it is now at one of the most prestigious edges of the triangle. He explained that “with the fund IV” (the initial cause of the move, in his discourse, appeared to be the raising of a new investment vehicle and the resulting increase in resources), his nomination as CEO of the Paris branch and the outlook of an increase in Starlight’s staff, he decided to make the asset management company move into a larger, more prestigious building.

As a consequence, Marc visited several places all around Paris. At first, as he told me, he visited office buildings in the recent business district of Paris La Défense – well-known for its skyline of glass buildings. He told me that these offices were cheaper than the office building he finally chose for Starlight Partners: he could have had “a large desk” and located all Starlight’s teams at the same level, in a giant open office. However, despite the higher cost of the golden triangle, he finally decided to move Starlight Partners’ offices to this *hotel particulier* close to the *parc Monceau*. According to him, La Défense’s glass towers were not convenient to his teams and to the private equity sector because of their lack history – as he told me, he found the big glass building he visited “too disembodied”. To the contrary, this *hotel particulier* had a history (“*un cachet*”). The old building also enabled him to divide the

teams of Starlight Partners into “several desks”, in order to give to each of these teams “more intimacy”.

Most other French private equity funds have taken a similar decision to Starlight’s one. These funds (imitated by some of their advisors and contractors) are located in a very small area of the historical Paris business district that sociologists of French bourgeoisie Pinçon and Pinçon-Charlot (2016) call Paris’ “golden triangle”. All the most important funds of Paris and most of their intermediaries (except “transaction services”, that is to say audit firms that certify the value of the exchanged companies, such as Deloitte or EY) are located in this triangle. As the following map shows it (see next page), the “golden triangle” is defined by a North summit (the *parc Monceau*), a West summit (the *place du Trocadéro*) and an East summit (the *place Vendôme*).

According to Pinçon and Pinçon-Charlot (2016), during the 19<sup>th</sup> century, the Paris bourgeoisie was located in three peripheral areas of the city: the Faubourg Saint-Germain, the Faubourg Saint-Honoré (still at the heart of the “golden triangle”) and Neuilly-sur-Seine (close to the new La Défense business district). Whereas the first district, historically inhabited by the nobility and the old bourgeoisie, is dedicated to ministries and administrative buildings, banking and financial services are split between the second (more historical) and third (more recent) districts. In particular, the private equity industry is almost exclusively concentrated in the former district, historically inhabited by the wealthiest sections of the *grande bourgeoisie*.

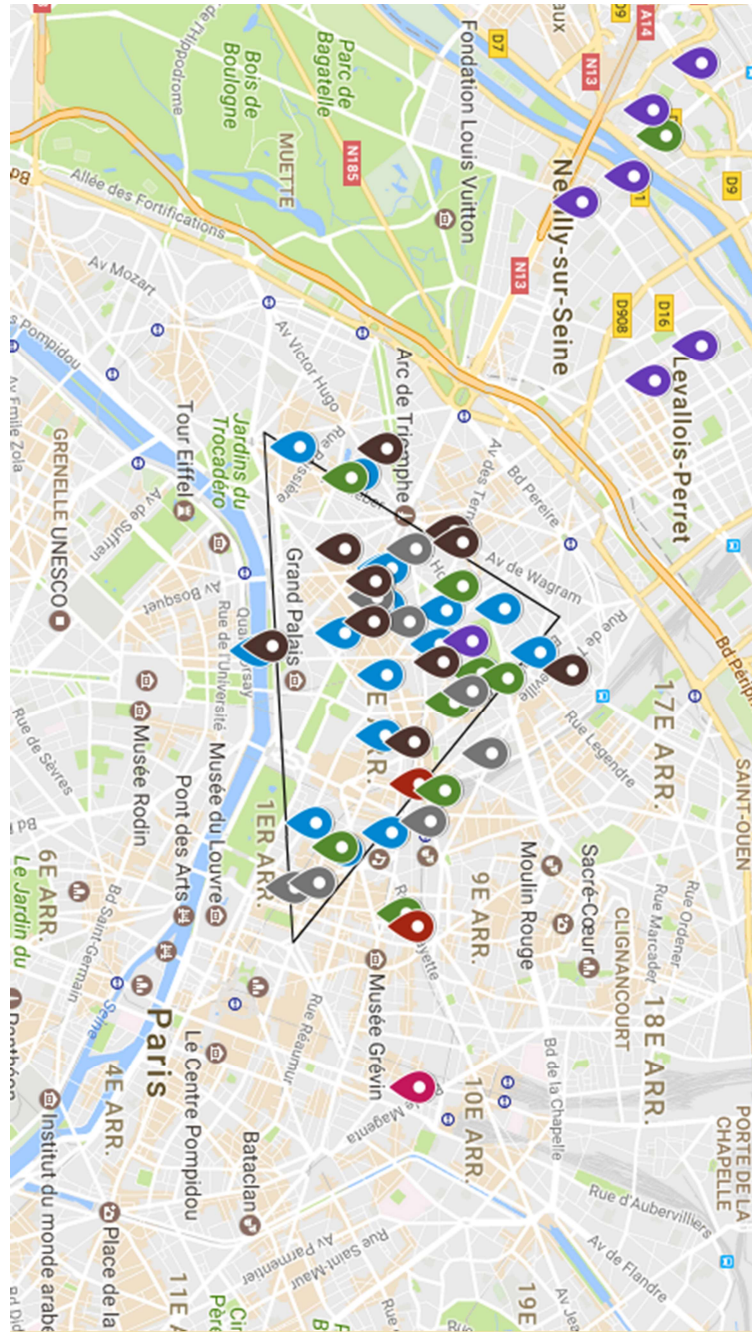


Figure: the embedding of the French private equity industry within the “golden triangle”; in red, the buildings of AFIC and BPI France; in pink, Impact Equity’s location; in blue, the 15 most important large-cap and mid-cap LBO private equity funds; in grey, the 10 most important venture capital funds; in green, the 10 most important French M&A banks; in purple, the 7 most important transaction services. The purple outliers at the top left are located in the La Défense business district. Source: map generated by myself, using Option Finance’s 2016 ranking.

*The social signification of investment funds' locations.*

The geographical concentration of funds and corporate finance intermediaries in this small area is paradoxical. During my observation, while Starlight Partners was trying to buy Financia (a financial company) against the will of its managers, Starlight's managers used to impose to everyone a strong vigilance regarding confidentiality. One day, I am invited to lunch with interns in a restaurant of the Monceau district. During the lunch, interns talk among other things of the work they do regarding the Financia operation. When they leave the restaurant after having lunched, one of the interns notices a business card on the ground, in the street of the restaurant. He grabs it – and finds out it is the business card of one of the top managers of Financia. That means that this manager or one of his business relations passed by the street, and possibly the restaurant, a few minutes before we were eating there and lost one of his business cards here. In this example as in many others, the geographical location of the fund seems to oppose clearly to what is constantly described as one of the main worries of private equity fund managers, that is to say confidentiality. This anecdote shows the ambiguity and the insufficiency of the practicality argument (private equity fund managers working all in the same place, they are said to be able to meet each other) to explain the location of funds.

The geographical location of private equity funds should also be studied in a symbolic framework. First, the geographical movements of funds can be interpreted as the symbol of the financial wealth of an asset management company, through the more or less prestigious nature of its building and location. Private equity funds move very often: as I explained it previously, during my 3-month observation, Impact Equity moved twice; Starlight Partners moved three times during the last fifteen years; similarly, as I had an interview with one of the partners of the very large LBO fund Vendôme Capital, I had to literally find my way through the cardboard boxes, as the fund is heading for its third relocation in ten years, in a new

building slightly closer to the parc Monceau than its previous one. The observation of the evoked examples shows that these relocations are closely linked to the financial activity of funds, in particular to their fundraising activity. When an asset management company raises a new fund, it can rely on a constant yearly income whatever its performance is (for Impact Equity, this amounts to 1% of the funds raised each to be spent each year). An increase in the amount of the funds under management thus allows the asset management company to increase its current expenses, in particular the rent that it can afford to pay. When it relocates, an asset management company signals a change in the quantity of funds it manages. The relocation of Starlight Partners occurred just after the raising of Starlight Fund IV, the largest fund ever managed by the asset management company. Similarly, the two relocations that occurred during my observation at Impact Equity were directly linked to the raising of the asset management company's second fund, here again far larger than the previous investment vehicle. The relocation of Starlight Partners from a family flat out of the "golden triangle" to an office building within the "golden triangle" a few years ago, and then from this building to an *hotel particulier* at one of the most prestigious places of the "golden triangle" inscribes the financial trajectory of the asset management company into the material, geographical world – through its initial emergence (first location), the pre-crisis exuberance (second location) and the post-crisis financial recovery of the mid-2010s (current location). The members of Starlight Partners are ready to spend sleepless night working in order to avoid hiring new analysts and associates, that is to say to limit wage expenses; however, they see no harm in spending significant amounts of money to rent lavish buildings in prestigious places. The fact that these lavish expenses occur show the significance of the geographical location of an asset management company. This location matters in the activity of a fund, and therefore can be considered as a proper production factor: the prestige of the location and the building has an

influence on the economic activity of the fund, ranging from its recruitments to its relations with targeted companies.

In addition, beyond the productive use of prestigious locations within the financial process, renting historical buildings in prestigious locations is also part of the overall goals of the private equity field (being an “*illusio*” in the Bourdieu (1994) sense). In this respect, it appears that the most prestigious French private equity funds are located at the most prestigious places of the “golden triangle”, in particular close to four main locations: the three edges of the triangle (the Kléber avenue, the *parc Monceau* and the *place Vendôme*) and the Champs-Élysées avenue at the basis of the triangle. These four locations are also the costliest places of the “golden triangle”. Thus, when the French branch of one of the biggest LBO fund in the world, CVC (specialised in large-cap LBO), moves to the Champs-Élysées avenue, a few hundred meters from the French headquarters of HSBC, the fund signals that it is a dominant financial institution and a dominant fund in the French private equity landscape (or a “key player”, as Option Finance’s ranking describes it). To the contrary, even if the location within the “golden triangle” is in itself a strong marker of the belonging of a financial institution to the broader private equity community, the other locations of the triangle (namely its centre) appear to be dedicated to smaller and less prestigious funds – the relocation of Starlight Partners from the centre of the triangle to one of its prestigious edges (the *parc Monceau*) reveals its positive trajectory in terms of fundraising and prestige.

Similarly, the location of a private equity fund out of the “golden triangle” is meaningful and used as a symbol. For instance, Impact Equity members very often insist on their geographical location, which is described as “a trademark” for the fund. At the beginning of my observation, the president of the fund explains to me that the fund was deliberately located in a place where there are no other investment funds: turning its location into a kind of motto, she claims that “Impact Equity is the most easterly fund of Paris” and

that it intends to remain so. The eastern location of the fund in the Paris space is a symbol that embodies, according to Impact Equity's president, the specificity of the fund and its philanthropic, social dimension – the East of Paris being traditionally considered to be poorer than the West.



## **Section 2. The microspatial organisation of funds and the embodiment of financial hierarchies in the space**

### *The physical organisation of funds and the hierarchisation of space at a microsocial level.*

The offices of Starlight Partners are distributed in two wings (the main wing of the *hotel particulier*, with the gates on the main street, and its outbuildings in the other wing), each of them having four floors and three “desks”. Regarding the first building, the most central and prestigious, ground level is dedicated to the reception, the kitchen and two meeting rooms. The first floor is composed of large luxurious meeting rooms, with dozens of chairs around circular tables and videoconferencing systems. The second floor is dedicated to the core of Starlight’s main “deal team”, with the shared office of three directors, the shared office of two associates, two interns and four empty seats for eventual guests from other Starlight branches, and at each end of the desk the individual offices of the CEO of the French branch and a partner of Starlight Partners. The third floor is dedicated to the offices of the “mid cap” deal team, that is involved in investing a specific “pocket” of Starlight Partners’ fund and is relatively autonomous in regard to the rest of the fund, and the office of a partner of the core “deal team”. The fourth floor includes the rest of the core “deal team”, that is to say two associates, one director, one partner and a member of the fund exclusively in charge of restructuring the debt of the owned companies (that tends to work alone).

The second building is dedicated to marginal individuals or employees that do not belong to deal teams. The ground and first floors are composed of small meeting rooms, generally use to do meetings between Starlight members, the offices of two assistants and Starlight Partners’ president (the function is rather honorary, and the president is now considered as a part-time employee). The second floor includes the offices of four members of the middle office (the general secretary, its assistant, and two middle office managers in charge of processing the banking transfers of the fund, writing letters to investors, establishing

the accounts of the fund). The third floor includes the offices of three members of the “deal team” that have been marginalised by the rest of the fund and that now work on side projects, such as the raising of a new experimental fund by Starlight’s president, and two interns for Starlight’s “mid cap” deal team. The fourth-floor hosts four assistants, an empty office for eventual guests, and my own office.

As such, the internal space of Starlight Partners’ building is structured by successive splits and gatherings. Splits between “deal teams”, on the one side, and assistants, interns, marginalised fund members and myself, on the other side. Splits between the two floors of meeting rooms, designed as public spaces, with their Evian bottles of water, their glasses, Nespresso capsules, notepads, pencils with Starlight Partners’ logo and videoconference devices, on the one side, and the three floors of offices protected from visitors by automatic doors and magnetic security checks, on the other side. Furthermore, it is structured by additional splits between the several desks of the “deal team”, in particular between the “mid cap” deal team and the two desks of the core deal team. Reciprocally, the space of Starlight Partners’ building is composed of gatherings: gathering between assistants (distributed in “pools” of assistants, despite the fact that they almost never interact together but always with the members of the “deal team” that are allocated to them), gatherings between marginalised fund members, and between promising directors.

The study of the offices of Impact Equity evidences similar kinds of splits and gatherings. At both offices, space is structured around the partners of the fund: partners push themselves away in the space. This phenomenon is visible in Starlight’s offices, but also in Impact Equity’s relocation: as a new partner has just arrived and the asset management company is about to recruit a new associate, the company has to move. Whereas the historical partner and the new partner were sharing an office in the temporary flat, in the new building each partner has its own office, and these offices are located according to the spatial

distribution that literally maximises the space between each partner's office: the president has an isolated office at the North-West edge of the building, the historical partner a building at the North-East edge, and the new partner an office close to the open space, in the South part of the building. To the contrary, juniors (interns and associates) are systematically gathered altogether. In Starlight's first desk, the two associates and interns of the core deal team are located next to each other in the open space. Similarly, the three juniors of the "mid cap" team are gathered in the same space.

*Fund managers' offices: "lean office" and material saturation.*

There are constant items on the desks of all fund managers: a computer screen and a laptop for Impact Equity, two computer screens and a laptop for Starlight, are set up on each desk. Fund members also have comfortable chairs and Alcatel phones that enable them to call anyone within the fund or in the rest of the world, to add people to their phone calls, and to organise teleconferences. Half-full Evian water bottles can be found on all desks. On some desks, one can also observe medicinal products, such as dietary supplements, vitamins, capsules against exhaustion or to foster attention.

However, beyond these constant material elements, there is a strong opposition in the occupation of space by fund managers, depending on their hierarchical status – between junior's empty desks and partners' overloaded offices. Juniors, such as associates and interns, are allocated to desks in a temporary way: for instance, interns work in the fund for no more than 6 months, and they sometimes have to move within the offices of the fund. They are settled on lean offices, all similar to each other and similar to the empty offices that are dedicated to guests from foreign Starlight's branches. Their desks have to be tidy, otherwise they receive negative remarks from more senior fund members. Members of the fund go back and forth in the open-spaces dedicated to juniors, suddenly asking one of them for a piece of work, having small talks and exchanging jokes with them. In a particularly striking way, the

associates of Starlight's core and "mid cap" deal teams are caught between the glazed walls of the partners' offices at the edge of each floor. Because of the structure of the open-space, they turn their back to the partner near to them, in such a way that they do not see the partner but that the partner can monitor their working schedule (each partner sees both the stairs that lead to the floor and the open-space from his office) and what is displayed on their screens.

To the contrary, the offices of the most senior managers of Starlight Partners and Impact Equity are saturated with objects in an exuberant way. In the office of the CEO of Starlight Partners' French branch, the observer can enumerate a wooden box full of (quality) wine bottles, boxes of Nespresso capsules, numerous recent cultural objects that Marc uses to offer as gifts to any visitor that comes to his office (for instance, a pile of DVDs of the *Baron noir* French TV series, dozens of copies of the last Kahnemann and Tsversky's book on uncertainty (Marc offers me one when I leave the fund), DVD boxes of French and Italian *nouvelle vague* movies, etc.), explicit symbols reminding the visitor of the personality of Marc (old Italian movie posters referring to the Italian origin of Marc and the fact that he was originally hired by Starlight's late Italian branch; a contemporary sculpture on the wall of his office representing monstrous multicolour bodies getting out of the frame, referring to his taste for contemporary art) and of his financial trajectory and "track-record" (including the "tombstones" of Marc's most prestigious deals, for some of them produced by illustrators).



*Figure: open-space desk of Impact Equity's intern (left), associate (far right) and the investment director (centre right); through the glazed wall behind the associate, the president of the fund can monitor the open-space and see what is displayed on the screen of the investment director*





*Figure: the saturated space of the office of Impact Equity's president, in particular with elements reminding his personal trajectory (for instance, the comic and the black book on the fireplace are references to deals that he completed – and other elements non visible on the photograph, such as a cover of Capital Finance magazine featuring his picture, books that he co-wrote in the past, etc.) – giving consistency and charisma to his character*



*Figure: bookcase in the office of a partner at Impact Equity; the printed Plexiglas squares on the top of the bookcase are “tombstones” of successful deals performed by Impact Equity or by the partner when he was working at Vendôme Capital; some of the books have been co-written by Impact Equity members; they are related to the private equity industry, impact investing or to the ideas that the fund defends; the poster on the top of the bookcase represents pictures of the managers of Impact Equity and of the companies in which Impact Equity has invested since its creation*



*The material embodiment of the financial culture into offices.*

During my stay at Impact Equity and Starlight Partners, I was able to observe several relocations: collective relocations at Impact Equity, as the fund moved twice between my first interview with the team of the fund and the end of my participant observation; individual relocations, as some fund members (in particular from Starlight Partners) moved to other offices during my observation. These relocations result in fund managers expressing their views about what an investment fund's office should look like, how to organise it and what material items it should be composed of. In particular, during relocations, fund managers emphasise two important pillars around which they consider their daily activity is built: the cult of secrecy and the relational dimension of their job.

In Starlight and Impact Equity, documents are stored in grey “modules”, closed with small lockers. When he prepares for the relocation of Impact Equity in its new offices, one of the partners of the fund repeats in several instances that there is an absolute need to have such “modules” that could be locked with keys in the new building. Each time he talks about these modules, he adds that it is necessary that “they could be locked with individual keys”, in such a way that only the owner of the module could open it. Finally, he orders 50 identical “modules” (for 6 employees) that lie everywhere in the new offices after the relocation, most of them empty, in each office. After the relocation, he often advises his fellows, in particular the intern and the associate of the fund, to protect themselves from visitors by removing their documents from their desks and by locking them in one of these numerous modules. This cult of confidentiality does not only reveal the defiance of fund managers regarding other funds or external people going in their offices, but also the individual property of documents and information that circulates within asset management companies. As fund managers are considered to be capitalists developing their career in companies organised as “partnerships” between individual capitalists, knowledge and relations that they own should be protected



from the appropriation by other fund managers, even co-workers – implying the use of keys and lockers.

Similarly, the relocations of Impact Equity clearly show the importance of receiving external people in the building of the fund. As I have said previously, the offices of Starlight Partners include almost as much space for meeting rooms (that are frequently empty) than for working desks. In the Impact Equity case, fund managers express many reflections regarding how the fund should receive external people in its offices, namely how it should receive the managers of targeted companies. Impact Equity members are embarrassed not to have more than one meeting room in the flat that they rent when I arrive at the beginning of my observation: despite the modest size of the fund, they explain that it is very important for them to be able to have two meetings rooms, in order to be able to receive several groups of people in a simultaneous way (the reception of external people in the common office being impossible, because of secrecy). Discussions also refer to the furnishing of meeting rooms. These rooms are furnished in a very specific and standardised way by fund managers, constantly including clean glasses and small individual bottles of Evian water, pens and pencils to be taken by visitors, and notebooks. In particular, discussions between Impact Equity managers refer to the table of the meeting room: they have long talks about which table to set up in the main meeting room they are going to have in their new office, hesitating between the table they had in their previous locations, judged to be too small by a partner of the fund, and the purchase of a new table, able to host at least eight people in the same room (they finally choose to buy a new table). This worry about meeting rooms and the number of people they can host is apparently shared by Starlight Partners, whose table in the main meeting room, a luxury, circular, wooden table, is enormous (around 40 people can sit around it), suggesting important meetings between business actors surrounded by a very important number of advisors and consultants.

*Inscribing financial performance and hierarchies to space.*

In addition to being apparent in the Paris space and in particular in the “golden triangle”, the appropriation of material space by social hierarchies is also visible in the internal space of Starlight Partners and Impact Equity’s buildings. In the case of Starlight Partners, the space of the fund is divided in two large buildings, with very distinct social values for each of them: on the one side, the prestigious building gathering the most central individuals of the “deal teams” of the asset management company; on the other side, the less prestigious building gathering middle office, back office employees and some marginal fund members (interns, fund members excluded from the main deal teams of the fund, Starlight Partners’ part-time president).

The existence of this symbolic hierarchy can be observed in the behaviours of Starlight Partners’ members. For instance, one of the investment directors of the main “deal team” of the fund, located in the less prestigious building of the fund (he is the only member of the core deal team located in this building), finally manages to move to the main desk of the core deal team, at the first floor of the prestigious building. This relocation results from the departure of an associate from Starlight Partners. By deciding to move to the main desk of the core deal team, the investment director makes a paradoxical choice, as he loses the calm and serenity he was enjoying in the other building. To the contrary, he moves to a desk that is just close to Jean’s desk (Jean, a partner, is usually his boss for most of the deals he performs), his back and his screen being visible to Jean through the glazed wall that separates Jean’s office from the open space. This is a bold choice, given that Jean does not hesitate to benefit from his geographical position to exert an important pressure on subordinate employees next to him. The fact that the investment director was ready to sacrifice his serenity for this new office desk shows the value of the particular position of this desk in the space of Starlight Partners – i.e. the existence of a hierarchy between the various places of the

internal space of the fund. Similarly, during my observation, one of the three directors of the core deal team moves from the common office that he used to share with two other directors in the first floor of the prestigious building, to the individual office of a partner now working in London. I am able to observe the way he prepares for his relocation and appropriates the space of the individual office, first doing his calls from this office before appropriating it properly. Even if I have no explicit confirmation of my interpretation of his relocation, it seems to me that in the context of the fierce competition between directors to become partner, his ability to get the office of the partner constituted an important symbolic demonstration of his superiority with respect to the two other directors located in the same floor.

Furthermore, the ascription of hierarchies and performance also requires the marking of space. The financial efficiency of an individual is expressed in the material environment of his office. This is strikingly the case in the offices of directors and partners, that present systematically the “tombstones”<sup>7</sup> of the deals that they performed (and that went well in the afterwards). By displaying these “tombstones”, fund managers symbolise their past career (their *track record* as they say in French) and embody the financial operations they performed in the past, these operations being materially incorporated to themselves (those who did not begin their career in Starlight Partners or Impact Equity do not hesitate to display the “tombstones” of operations they performed in previous funds). In addition to this symbolic accumulation, fund managers also accumulate and sometimes exchange between each other the documents (digital or paper documents) that they keep in their offices. These are namely

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<sup>7</sup> As seen in the previous picture, “tombstone” are posters or plexiglas sculptures that are offered to fund members just after they managed to perform a deal, mentioning the name of the deal, its value, and the name of the individual that own the tombstone (sometimes along with a picture, a logo, or even a comic illustration). They are the material symbol of the fact that an individual has been involved in a specific deal.

the (costly) reports from consultancy firms, for instance report on specific companies or specific sectors, that fund members keep all along their career even when they shift from one job or organisation to another one.

Beyond the accumulation of material symbols and documents, the offices of private equity funds also symbolise the hierarchy between individuals by revealing the roles of those who work there. For instance, partner offices full of artworks and wine bottles reveal the relational, socialite dimension of their occupants. Moreover, they reveal how the role of partners requires that they have a financial “charisma” (Bourdieu 2001), linked to their position in the social (and geographical) space of private equity, this charisma justifying their transformation from wage-earners into capitalists owning shares of the asset management company and receiving important incomes (see part 2). To the contrary, the emptiness of interns and associates’ offices underlines how their status is limited to their workforce. As they are not able yet to distinguish themselves through the displaying of a financial performance or a “charisma” that would materialise through “tombstones” or exotic and artistic objects, they are interchangeable and remain part of the wage-earning world.

### **Section 3. Fund managers, local France and the global world: the hierarchisation of space through financial categories**

#### *What “London” means for private equity fund managers.*

Starlight Partners’ extension in the space is relatively consistent with the geography of European finance. Historically, the asset management company was created as an independent company by the now president of Starlight France; then, it partnered with a British private equity fund in the 1990s and became Starlight Partners. The asset management company progressively extended itself, through partnerships, buyouts (for instance, Starlight Partners France bought out an asset management company to a bank, also buying the fund that was managed by this asset management company, renamed Starlight Mid-Cap I), closures (the German branch of Starlight was closed a few years ago, provoking the relocation of a part of its team in Paris and Madrid) and openings (the New York branch of Starlight was opened a few months before my observation, as the result of a cooperation between local fund managers and members of the European branches).

In the current situation, there is a solidarity between the branches of Starlight Partners, that is defined by the heterogeneous contracts between the central London fundraising team of Starlight Partners (that raises money for all local branches, despite some exceptions, as Paris was raising a fund on his own during my observation) and the particular local entities (for instance, the French branch of Starlight Partners is actually composed of three distinct companies: Starlight Partners France, Starlight Partners Mid-Cap and Starlight Partners Special Operations, the fund that is being raised in Paris). Interviewees explain to me that the profit of the deals of each branch is shared, on the basis of a fixed ratio, among all the other branches of the fund. For instance, the “carried interest” (variable) income of a fund manager working in the Paris branch of Starlight Partners partly depends on the return of Starlight investments in the Stockholm, Madrid and London branches.

Therefore, Starlight Partners deploys its structure through space according to an extended and complicated organisation, with its gravity centre being apparently close to London (new funds are raised in London from international investors and expressed in GBP), despite a recent trend leading to an increase in the relative power of Paris and other European branches. In this respect, the “London” toponym is quite frequent in the Paris offices of Starlight and is generally used to designate the London branch of Starlight Partners (at the beginning of the observation, for instance, I am told that I am not provided access to the internal servers of the fund “to avoid informing London” about my presence in the fund). London is generally associated to the bureaucratic procedures and committees of control to which the members of the fund have to submit, and to the frequent Paris/London commuting that results from them. One of the partners of the Paris branch of the fund is even permanently posted in the London branch to participate to the various committees and to the fundraising activities of the UK branch.

The relationship of Paris fund managers with the London branch of Starlight is not only defined by organisational and legal devices, but also by cultural representations of national identities and characters (in a way that reminded me of Ortiz 2017). During interviews, fund managers are frequently referring to what they considered as the character of “the English”, asking me to confirm their vision of “the English” based on my Edinburgh experience: in an unrecorded interview, one of them tells me that “you know how they are [English people]”, then insisting on the fact that they are “fake” and “cold”. Another interviewee, who has worked for a long time in the London branch, asserts the same kind of representations regarding “London people”:

Partner: So that’s why Jean [a former partner at the Paris branch], who was the most senior partner at the time, left when we did our buyout on Starlight Partners [the historical partners bought out the Paris branch to the bank that has founded it with the help of Starlight], because he wasn’t willing to work with London people, so he stayed in France

to set up a fund that does LBOs. He left for that reason, he did not want to work with London...

Q: But why?

Partner: Because, that was not the culture he was enjoying, he had absolutely no affinity with this mentality... Because... You know it... It's a different culture.

Q: How is it different? I mean, I understand, I do my PhD in Edinburgh, but how is it different for your work?

Partner: They don't have the same working culture...

Q: That is to say? They don't have the same processes, the same structures...

Partner: Oh, no, no. It's in the relationship. I have to say that they are...

Q: They are colder, more distant?

Partner: No, no... They are not frank at all. These are people that will tell you sympathetic things in front of you, but they will stab you when you will turn your back...

This mode of communication, for them, is a normal one but it is not normal at all for us [French fund managers]. But then, when you know how to decipher them... But not everyone likes this kind of relationships.

Of course, in this section I am not considering that the way my interviewees describe the alleged "London culture" really characterises anything in the real world – in the same way as the discourses of how "women" and "people from an immigration background" (see next chapter) are said to act on financial markets only reveal the representations of the speaker, not the real behaviour of women and people from an immigration background. The representation of the space, of national cultures, of globalisation should be understood following the anthropological method of Ho (2005) and Ortiz (2017). From an anthropological perspective, the way interviewees make sense of "cultures" (that do not exist for real out of what is said of them) are representations that are involved in a broad way in the circulation of capital and fund managers between the main financial centres.

Such representations were particularly interesting to observe, as my Starlight Partners observation just took place during the Brexit vote (the vote occurred after one month of observation). During lunch, in the middle of June 2016, I was talking with Marie, an associate that had been working in London a few years before, both at Goldman Sachs and in the

London branch of Starlight, before asking for being repatriated to Paris. Charles, the president of Starlight, just arrived at that time as we were talking about the life in London: interrupting us, he asked if Marie and I had transferred our British pounds into euros. As we both replied that we hadn't, he told us: "too bad, too bad... But it's too late now, you'd better wait for the result". According to him, "he was perceiving a little music [*une petite musique*]"<sup>8</sup> that was letting him think that the Brexit side would win, meaning that Marie's remaining assets in the UK (and my GBP-denominated scholarship) would get strongly devaluated. However, while talking about what he was seeing as the likely perspective of Brexit (which was still unlikely at that time according to polls, leading me to think that Charles was maybe not only forecasting Brexit, but desiring it) and its disastrous consequences on our personal finances, Charles was quite cheerful. Indeed, as he told us, after Brexit "Starlight won't be able to raise funds in [Great British] pounds anymore, it will have to raise in euros" – and the balance of power between London and Paris would definitively shift to Paris, as Paris was the largest Starlight branch in the eurozone. This was particularly good news for the fund he was trying to raise alone in France, without the help of the investor relations branch in London – and for the future of the Paris partners, directors and associates that were working with him on this fund project.

As such, the relationship of the Paris branch of Starlight Partners to London and "London people" is entangled in a broad power struggle, as Paris fund managers seek to break the monopoly of the London branch over fundraising. This power struggle is not only

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<sup>8</sup> An implicit and probably unconscious reference to the *Margin Call* (2011) movie, in which the CEO of the bank compares markets to a "musical chairs" game, explains that his CEO status and income are exclusively due to his ability to "hear and forecast the music in one week, one month, one year" and that "right now [he doesn't] hear anything anymore, just silence" – meaning crisis has just arrived.



influenced by the performance of each team or the objective amount of capital available in Paris and London, but also by cultural representations related to nations (including stereotypes regarding “the English”) and large political events such as Brexit (such as Charles’ hypotheses regarding the likely outcome of Brexit on Starlight’s fundraising).

*International travels and local production facilities.*

Beyond the London/Paris opposition, the fund gets embodied in the global space through its deals. Deals are partly consistent with the local branches of the fund. Primary deals are performed in countries where there are local branches; secondary deals (buyout of an external firm by a portfolio firm of Starlight) generally occur in countries with local branches as well. For instance, the Internet company eInform bought out by Starlight Partners France extended itself by buying out a British, a German and an American competitor – three countries in which Starlight owns local branches.

The geographical extension of Starlight Partners affects the lives of fund managers, through their working rhythms and their life places. At some point during lunch, an associate of Starlight Partners talks about a company owned by Starlight Partners with a branch in San Francisco; in particular, he talks about the way this company offers him travel facilities. Talking in a humorous way, he describes the ownership of companies by the fund as motivated essentially by the perspective of traveling to the local branches of companies, insisting on the meteorological aspect of such travels. The associate explains that he is disappointed about the failure of a recent build-up with a Brazilian company: it is always useful, he continues, to own a branch of company in the South hemisphere in order to be able to avoid the European winter by doing business travels there. Then, the associate and other fund members talk about the next annual review of a company that the fund owns, which has a branch in San Francisco, and the way the travel that will result from it will allow them to

avoid the French winter in California. The pride of business travels, that allow fund managers to display a luxury life, is therefore part of their subjective representation of space.

Similarly, during my observation, an investment director at the Paris branch of Starlight is called to Stockholm to participate to a deal being performed by the Swedish branch of Starlight Partners: this branch has not enough workforce to cope with the work required by the deal and asks the Paris branch to send someone to them. For two weeks, the investment director of Starlight used to live in Stockholm to work on this operation. Reciprocally, the “desks” of the Paris deal team of Starlight Partners are half empty: for each used working place, there is approximately one empty place (which is a handy situation for the observer). These places are dedicated to eventual guests of other branches traveling to Paris: during my observation, the fund hosts members of the London branch at several instances, each time during one or two days, be they British people or French people from the Paris branch posted to London.

Even when they live and work in Paris, Starlight members live in the global part of the city (and transform it: Sassen 1996), in the same way as they would live in London or Stockholm. This is illustrated by an anecdote of the corporate seminar of Starlight: Marc announces to its team that all the local branches of Starlight Partners will have their next yearly general meeting in Paris. In this respect, Starlight will pay to each member of the deal team an hotel room in Paris, including members of the Paris branch. He then announces that Starlight members will be hosted in an Ibis hotel. Then, he rectifies: “no, I’m kidding... It will be at the Intercontinental. Five stars, very good hotel, for those of you who have not been there yet...” Starlight members, first surprised, then laugh to the joke. More than going to a foreign place, in the context of Starlight Partners traveling means being part of a particular universe with an international standing that is specific to a small number of global spaces, including the historical business district of Paris.

Therefore, beyond the organisational structure of the fund, fund managers are deployed in the global space as individuals. Their personal trajectories have been marked by their stays in large financial capitals. Members of Starlight, for approximately half of them, have graduated from a foreign university in addition to their French diploma (most of the time a master's degree from another European business school or an American MBA) – and some of them are foreigners themselves. Similarly, at Impact Equity, one of the partners of the fund has been working during a decade in the New York financial industry.

#### *Local geographies of private equity finance.*

This global geography of asset management companies has to be compared with the local geography of their investments. This opposition is particularly relevant in the cases of Starlight Partners and Impact Equity: whereas Starlight Partners deploys its capital all over the financialised world, the influence of Impact Equity remains limited to the French (and more specifically the Paris region) space (see Foureault 2018 for an opposition between global and local fund in the French private equity sector). Beyond punctual collaborations with foreign (most of them British or American) actors involved in the impact investing sector, such as the social certification association B-Corp, the fund only invests in France as part of its investment strategy (promoting “made in France” small companies). Therefore, Impact Equity is integrated to local networks. It belongs to professional networks such as the Entreprises! network, based in Lille (North of France) and promoting the theories of “liberation management”, or the Entrepreneurs des cites, based in the poor suburban city of Cergy-Pontoise and promoting entrepreneurs from poor neighbourhood and immigration origins. At several instances, some members of Impact Equity go to Lille and Cergy-Pontoise to meet people from these networks, believing there could be chances that they find “social” businesses that could be open to their investments in these networks. The geography of Starlight Partners' investments is local as well, but in another way. Beyond the fact that

Starlight Partners invests massively overseas, the French-based companies that Starlight Partners owns have for most of them their production centres in the French countryside or in the Paris suburbs. For instance, members of Starlight Partners in charge of following Industria go on a regular basis (once or twice per year) to the production sites of the company, be it in the suburban headquarter of the firm (in Massy) or in its factory of the Amiens (North) region.

Furthermore, the local geography of asset management companies can be observed in the daily life places of its members. It is difficult to study the living places of the observed fund members, as each fund member has at least one living place and it is private. Therefore, this observation is not based on systematic observations of the places where fund members live, but on the places where they claim publicly to live in the discussions that I observed. For most of them, these places are rather bourgeois places, as the anecdote related to Antoine's living place reveals it. When I undertake my observation, the Champ de Mars (a central park in Paris, just in front of the Eiffel tower) is privatised because of the broadcasting of the Euro 2016 on a giant screen: Antoine complains about the crowds of tourists on the Champ de Mars. Indeed, as he tells me to explain his complaints, Antoine (who is 32 at the time of my observation) has just acquired a 100 square meter flat on one of the avenues bordering the Champ de Mars – a very bourgeois and expensive location for someone his age. Similarly, a former partner of the fund and a regular service provider of the asset management company talk in front of me about their respective residencies in the Pityuses archipelago, close to Valencia (one has his property in Ibiza, the other one in Majorque). Later, the same former partner and a director at Starlight talk about hunting and gardening: the director, from a noble family, evokes the plants he cultivates “in [his] castle” (he later tells me that “actually, it's a small castle”). Juniors that enter the fund as interns already have a strong tropism for bourgeois places. During a discussion, two interns of the fund from HEC (the first one being a son of teachers and the second one a son of corporate managers) evoke their exclusive aspiration to

live in the West of the right river of Paris. After I object that they could also live in the East of Paris (a traditionally poorer and younger place than the West), they remain perplex. One of them ends up conceding that he could maybe live “in places close to the Champ de Mars, like Antoine”. Toponyms cited by the observed fund managers go out of this bourgeois geography in rare cases, most of them in the context of Impact Equity. For instance, the president of Impact Equity has just bought a house in Montreuil (a gentrified city at the East of Paris). A Starlight Partners tells me in his interview that he lives in Vincennes (a relatively well-off city, though it is located at the East of Paris) – emphasising the fact that he enjoys the city, despite the fact his colleagues often find it “strange” that he still lives there. Toponyms strongly diverge from the bourgeois norm when fund managers talk about their childhood and their parents: one of the partners comes from the small countryside city of Dijon, another fund manager from the poor suburb of Nanterre, the parents of a third one still lives in the poor neighbourhood of Issy-les-Moulineaux.

*Becoming the intermediaries between global capitalism and local production.*

The opposition between “local” and “global” shown in the previous empirical descriptions is explicitly built and appropriated by interviewees. It is part of their representation of themselves, their own activity and the way they justify their activity through a specific interpretation of the world space. Fund managers often describe themselves as intermediaries between two kinds of spaces: the global space of private equity finance and large capital flows, on the one side, and the local space of production sites that they buy out, on the other side. In this respect, the financiers’ vision of the world is based on a rhetorical opposition, namely described by Ho (2005), aiming to justify the existence and the centrality of financiers by using the globalisation process as a rhetorical instrument – financiers being described as the intermediaries of globalisation. This interpretation of space appears in numerous interviews, as in the two following extracts:

Director (talking about her trips in China at the beginning of her career in the private equity industry): I was spending, as we outsourced quite a lot of... Of companies, I was spending... I have spent two years, well... [Two years with the working rhythm of] one week in Shanghai, two weeks in Paris...

Question: Ah, all right...

Director: So, it was a very interesting time, because I was negotiating with Chinese people and... That was a great experience...

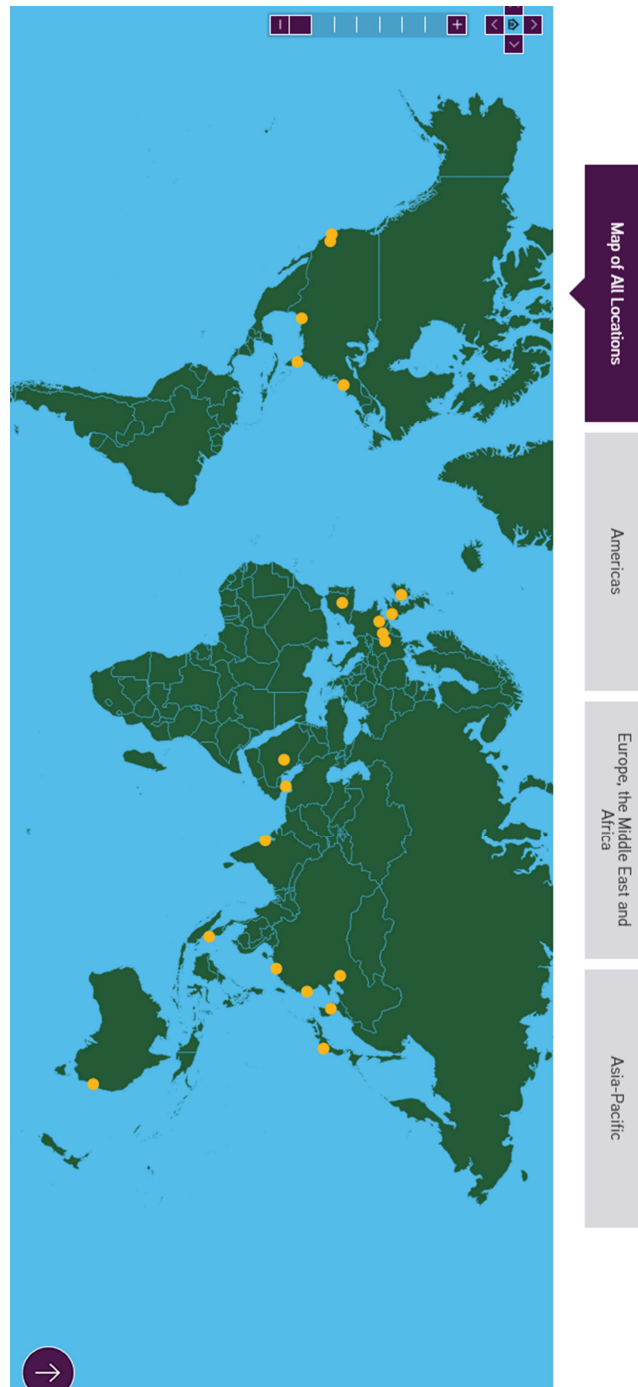
Question: And I think that at that time it was...

Director: And at that time, it was quite early in the... Well, it was, I was there between 2001 and 2004, there was still the JV [joint venture] status in which it was forbidden to build a JV without a Chinese actor, so you had to find the Chinese actor to establish a partnership... You had to lobby a lot with the local [Communist] party, well, this was a very particular system... But personally, I enjoyed it a lot, because I was finding it very funny...

Investment director: [When you buy a small or medium business], you really see at 360° what the management does, (...) you go and visit the production facilities, you meet the managers and they tell you about production issues (...) And for build ups, you're involved at 100%. When the manager tells you: 'I'm going to do a build-up in Poland or Spain', well, you take the plane with him and you go there. And that's interesting, I think. Secondly, (...) very often there are family SMBs that have not been able to grow because of the capital barrier, because of access to capitals and the language barrier, you see. There are many managers who are close to retirement and they don't speak English, whereas they sell 80% of their production to foreign countries. And you, you arrive and actually, you help them make an important step.

In these two extracts, fund managers underline the contrast between their geographical and social position within large global metropolis, on the one side, and the remote locations of the companies in which they invest (and “put their hands”), and the production facilities to which they go physically. They assert that this contrast is “interesting” and that the “service” they can provide as fund managers relies on this contrast. The gap between the globalised space in which funds are located and the local production sites is considered as a gratifying part of the job of fund manager, required by the justification of its social usefulness (fund managers considering that their value added lies in their ability to bridge “structural holes” in

the networks of entrepreneurs, in a way that evokes Burt 1992). In this perspective, fund managers need to interpret the space and create spatial hierarchies, in which they occupy rewarding positions – these spatial hierarchies being produced materially by the flows of capitals, but also through the discourses and symbols of fund managers.



*Figure: a fund similar to Starlight Partners makes sense of the global space on its website, presenting its local branches; the neutral presentation, with neither name nor centre, tends to fuel the idea of de-territorialised company; it also highlights the hierarchically imperfect dimension of the asset management company, with power struggles between branches (London and Paris for instance)*



**Chapter 2. The body of financiers: private equity funds as instances of body selection, the symbolic instrumentation of bodies, and the recent crisis of private equity's body hierarchies**

## **Section 1. Investment funds as organisations that select, transform, test and exclude bodies**

### *The uniformity of financial bodies.*

The effects of the processes of hierarchisation, selection and normalisation of bodies appear strongly in the general demographic characteristics of the funds I observed. In the case of Starlight Partners (Impact Equity, an outlier in this respect, will be evoked more in depth at the end of this chapter), the members of the fund have very similar characteristics: the “deal team” is composed of a large majority of men (88% of the “deal team” excluding interns<sup>9</sup>), white (100%), with age between 25 and 49 years-old (98%). The body uniformity of the deal team is made even more visible by the fact that it contrasts with the other services of the asset management company (“middle” and “back office”), which include a far higher proportion of women and people from non-European ethnic backgrounds. The composition of Starlight Partners is not exceptional: it is quite similar to the composition of other private equity funds (as shown by Turco (2010) or studies published by specialised actors in the sector, such as one published by the main French private equity lobbying group Afic (2016)) and in the financial world in general (particularly visible in Zaloom’s (2006) ethnography of an extremely masculine trading pit).

The uniformity is also embodied within concrete characteristics of bodies. In addition to being male, white and middle-aged bodies, Starlight Partners’ bodies have average to high height and a harmonious weight regarding to their height – echoing the remarks of McDowell and Court (1994) regarding the “fitness” of financiers. For most of them, male financiers

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<sup>9</sup> At the time of my observation at Starlight Partners, the 4 interns of the fund include 1 woman and 1 intern from a Northern Africa background, balancing slightly (but temporarily) the statistics of the deal team.

shave their face daily and have short hair. Their face, their hair and their teeth are neat: even if a small part of Starlight's members use to smoke, their teeth and face are not scarred by smoking. They all wear grey, navy blue or black suits with white shirts. They wear the tie depending on implicit but very specific norms. During interviews, I also notice the olfactory uniformity of fund members: the body smells resulting from sleepless nights, stress and lunches at the restaurant are concealed by an intensive use of fresh and fruity perfumes, and menthol chewing gums.

*The normalisation of fund managers' bodies.*

Such a uniform body outcome implies to submit fund managers' bodies to a daily work of transformation and normalisation. This work is exerted over many aspects of the body: its fitness (emphasis on sports, devaluation of fatness), its appearance (shaving, hairstyle), its clothing, the physical gestures of individuals, are all controlled and transformed through time.

In this respect, stays in institutions such as Impact Equity or Starlight Partners seem to have a real effect on the weight of fund managers: individuals initially judged to be "fat" tend to converge towards an implicit ideal height/weight ratio. The case of Jean (investment director at Starlight Partners) is quoted as an example of a fund manager that has changed physically during his stay at Starlight Partners. Chubby-cheeked at the time of his arrival in the fund, as his picture on Starlight's face book reveals it, Jean has lost a lot of weight and has become fit or even thin, with sunken cheeks – an impression that his colleagues confirm ("he has lost a lot of weight": see the next interview extract later in this section), putting explicitly his physical evolution within the frame of an adaptation to the esthetical norms of the fund. A similar phenomenon occurred with a partner at Impact Equity: a historical manager of the fund since its creation six years ago, she welcomes during my observation one of the historical investors of the fund in Impact Equity's offices. As he enters the office, he makes a remark to Françoise about her weight: "Françoise, I have the impression that you have lost

some weight, you look better. That's a good thing, because previously you were a bit plump... Now, it's better." In saying so, he reveals the body trajectory that Françoise has undergone since her arrival in the world of finance six years ago, but also the positive view he takes, as a former fund manager and a current investor, on this physical evolution. (Even though the fitness of male managers was also the object of frequent comments, the fact that this remark was specifically addressed to a female manager also makes sense in the context of the emphasis on hegemonic femininity within investment funds in the post-crisis period, that I describe in section 3.)

This convergence is paradoxical, as fund managers spend more and more time in restaurant as they progress in their career: meetings with their advisors, with shareholders and managers of targeted companies, with potential buyers for portfolio companies frequently take place in restaurants (a partner at Impact Equity summarises his professional timetable with the following express: "breakfast, lunch, dinner!"). In order to compensate this high nutritional input and to keep their bodies within the fitness norms of private equity finance, the fund managers that I observed tend to develop an ascetic relationship to food. For instance, one partner at Impact Equity constrains himself to only eat, during the lunches when he is not eating at restaurant, a small vegetable cake with a fruit – or even to fast sometimes. Similarly, almost all interviewed fund managers used to practice a sport with a weekly regularity, very often running sessions that allowed them to "evacuate" their "energy" (referring not only to their calories input and output but also to the rational management of the "body energy" evoked in the next section of this chapter).

This normalisation also requires the existence of norms encouraging or even constraining individuals to transform their bodies. These mechanisms are the most explicit, visible and repressive when they are used against the youngest and less normalised individuals. In this respect, the case of Amine's appearance is emblematic of such a

domestication process. Amine (male student at ESSEC business school from a working-class, Tunisian background) doesn't shave closely enough relatively to the norms of private equity finance during his internship at Starlight Partners (despite the fact that this was his second internship in the financial industry, after a six-month internship in an M&A bank). Even if he shaves each day, he keeps some visible hair on his cheeks and his chin. This fact triggers numerous remarks from his bosses, namely from a partner (Antoine) that blames him on a daily basis for his shaving. One afternoon in particular, Antoine has an argument with Amine because of his shaving: he forces him to leave the office and to come home in order to shave properly. When Amine comes back, he tells Amine: "if you aren't better shaved tomorrow morning than you were this afternoon, just don't come to Starlight". Following this interaction, an associate that works frequently with Amine asks him questions about his shaving method. Then, she asks a director for shaving tips to help Amine. At the time of my observation Amine shaves in a closer way but even if the episode is told to me as a small anecdote, Amine still displays some anxiety regarding to his appearance and his relations with Antoine (after his internship and for many other reasons, he finally decides not to continue working in the financial industry).

Similarly, the weight of people is subject to frequent remarks, in particular directed to people judged to be "fat". Marc (the CEO of Starlight Partners) tells his colleagues during an informal discussion after lunch the remark that was made to Antoine (partner) by the shareholder of a company on the edge of being bought out by Starlight Partners, during a business lunch. Antoine is slightly overweight, and this situation makes him the object of frequent jokes (for instance, interns once refer to Antoine's trousers as "Antoine's baggy", insisting on their excessive size; for works about the jokes of financiers, see Boussard 2014 and Souleles 2017). When choosing the menu of the lunch, the shareholder vaunts highly the lobster and advises his counterparts to choose it, before hesitating and saying to Antoine:

“except for you!” The allusion to Antoine’s supposed fatness is transparent to him, as Antoine looks embarrassed (according to Marc’s account), and transparent to the members of the fund listening to the anecdote that all laugh after Marc’s account.

Furthermore, I am not left unscathed by the observation at Starlight Partners. Finding myself a bit too thin, an intern insists during lunch pauses that I begin weight-lifting in order to “make me feel better”. Similarly, during my arrival on the fieldwork, I am strongly incentivised to reduce the length of my hair, a bit leafy at that time. I get a haircut the day before Starlight Partners’ corporate seminar that I am invited to attend. At the beginning of this seminar, when Marc introduces me to the team, he notices my haircut and makes the remark that I just had a haircut to integrate myself to the fund – I get applauded by the whole team and I get a strong smile from Antoine, a partner very careful about these capillary matters.

Finally, the integration and the progression within investment funds imply a socialisation to the body *hexis* of finance making fund managers converge towards a strict, uniform norm of appearance. This socialisation is more or less constraining, taking in some cases the shape of remarks and jokes, and in other cases the form of direct repression. It is more or less implicit: even if one of Starlight Partners’ partner tells me that he dreams of establishing a “dress code” within the fund (taking as a model large international investment banks), most norms of appearance and clothing are only revealed when they are broken by individual behaviours and when other fund managers react to this norm infringement.

The normalisation of bodies is not only limited to private equity funds. It participates to a broader movement initiated and pursued by other social institutions. For Starlight Partners’ interns, for instance, the control of the appearance at Starlight is based on the same norms as those that they have learnt during their business school life, during their “personality interviews”, their previous internships or their gala balls. Business schools play an active role

in transmitting body norms similar to the ones of finance – that role is made explicit by the frequent remarks regarding the physical appearance of engineers (“deal team” members being all former students from business schools or engineering schools):

Question: And have you heard of people who have physically changed through time? For instance, associates or...

Michel, 42, director: Yes, I know of someone who definitely changed.

Question: Yes? Who is it?

Michel: Jean.

Question: Jean? Has Jean physically changed?

Michel: Yes. First, he lost a lot of weight... And in the way he dresses, I saw him a long time ago, even before he worked [in the financial industry], and he was dressed very differently...

Question: Okay. You knew him before? And he was...

Michel: Oh yes, I knew him... But he was like, the typical engineer that doesn't care about the way he dresses...

Similarly, after having worked in consultancy firms, audit firms, M&A banks or high civil service functions, “deal team” members have also learnt specific body norms in their previous trajectory (with slight discrepancies between them) that they re-use in their daily work at Starlight Partners.

### *The selection, examination and exclusion of fund managers' bodies.*

The bodies of fund managers are also subjected to a process of sorting through time, implying the selection of some specific bodies against some other ones, and the exclusion of bodies judged not to be consistent with the norms of private equity. This selection can be observed very early, in the recruitment process of newcomers: after having appointed a headhunting company for new recruitments, candidates pass through several rounds of interviews by the members of the asset management company. Of course, the body is not explicitly described as an issue in these interviews. However, all my interviewees assert that these interviews do not aim to evaluate the technical skills of an individual, but that they rather aim to evaluate a

blurry “set of factors”, leaving a lot of room for what they call the “human contact” or the “fit” – these concepts integrating interpretations based on the body of the candidate. In some cases, the body dimension of the selection of newcomers is explicitly mentioned (namely when these selection criteria are compatible with the “diversity” issue that is associated to my position in the observed funds; regarding the sexist dimension of this interview extract, that associates women with a very specific vision of femininity, see the sub-section 3 of this section):

Luc, 45, partner: The person we have finally recruited, she is a women, well we also had some guys in the process, but then the idea of recruiting, we wouldn't have forced ourselves to recruit a girl if we had had a really brilliant guy, but the idea of recruiting a girl in our team [the mid-cap deal team] where we are already 9 guys, it was not looking so silly in terms of diversity, I think that the approach to many subjects is not the same, the vision can be very different. It's not sexism, it's really that the masculine sensitivity and feminine sensitivity are not the same. And so we had the feeling it was not absurd, you know, to have a new eye, a feminine eye in this team.

This implicit selection should not conceal previous selection steps. Fund managers' bodies are not only evaluated at the time of their arrival in the financial industry through formal interviews, but also before that arrival in the sectors from which the pools of candidates are recruited. The private equity sector only recruits its candidates in some specific pools of candidates: those owning a diploma from a top business school or engineering school (including Sciences Po and the university Paris-Dauphine), having two to four years of experience in a consultancy firm, audit firm, M&A bank or leveraged finance department (direct recruitments after graduation are exceptional; at Starlight Partners, only two out of the approximately forty members of the “deal team” have not worked in these sectors). The body selection of the private equity industry is partly delegated to these academic and business institutions: they operate a strong body selection of individuals (Van Zanten (2014) designates elite institutions and in particular French elite business schools as institutions of “social



closure”) and have already normalised the candidates that apply for a career in the private equity sector.

Once a body is admitted within a fund like Starlight Partners or Impact Equity, it has to submit to regular physical tests as part of financial work. In particular, the most emblematic of these tests is constituted by what fund managers call the “deal period”, during which asset management companies negotiate the buyout or the sale of a company. During these periods, individuals are asked to demonstrate their “*culture achievement* [expressed in English during interviews]” and their “*deal first* [in English during interviews]” mindset. This demonstration is namely based on the necessity to bear in a “virile” (in the sense of Dejours (1998)) way the physical suffering of sleepless nights and high stress:

Luc, 45, partner: Winning a deal in a competitive market like ours, it’s like a war... I mean, it’s... You don’t sleep, you have a shitty life during 3 to 6 months, during all the time you’re preparing the deal, it’s a real pain...

Indeed, during the deal period, it is customary that “deal team” members submit to intense stress and extensive working schedules. They have to write successive investment notes for a set of actors (internal committees of funds, banks, shareholders, managers), these notes being established on Excel models that they have to elaborate as well. The crafting of these documents has to meet close deadlines that, given the deliberate Malthusianism (Godechot 2007) of recruitment practices, forces fund managers to work late at night or even to have sleepless nights (that my interviewees call “*les nocturnes*” – the night sessions).

In the same time, these deal periods are evoked with excitement by fund members. For instance, at some point in my Starlight observation, I listen to an interaction between two interns: they tell each other what they did the previous evening. One of them, exasperated by what he calls the “*face time*” (idle time when he just waits for orders from his bosses), has left the fund early around 7:30pm the previous day, whereas the other intern has chosen to stay

late in case something happens. When he comes back to the fund the following day, the former discovers that his colleague stayed working at the fund until 4am: the other intern tells him proudly that one of the directors of the fund asked him to participate to the refinement of a “model” as part of a deal and that “it was the *rush* [in English]”. The former intern, disappointed not to have been here, concludes in a bitter way: “I should have stayed later.” Therefore, the sleepless night of the deal period is envisioned as an exciting initiation to the job of financier and as a way to prove one’s physical resistance to exhaustion and stress, such a display of the virile dimension of hegemonic masculinity (based on sport and suffering, as in Connell 1993; Messner 1992) being considered as a good signal of one’s ability to become a good fund manager. More broadly, the way junior fund managers are expected to work during tiring shifts while displaying an always engaging face also reveals the “emotional labour” (Hochschild 2012) that the activity involves.

Similarly, in the following interview extract, a (female) director evokes how she tried to implement new timetables within the fund in order to reconcile her family life with her asset management life (in a way that reminded of Hochschild’s (1997) “time bind”, as fund management work and family work are clearly evoked as two competing working shifts in the same day in the words of the interviewee). This extract underlines her singular vision of the deal period, emphasising that this period is so crucial in the profession of private equity manager that she does not even think about avoiding it<sup>10</sup>:

Anne-Françoise, 43, director: I have spent my six first months [after her arrival at Starlight Partners] to say: ‘I remind you, I don’t attend meetings after 7pm, I go at half

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<sup>10</sup> This extract also implicitly emphasises how the alleged inferiority of female bodies is constructed, as women are implicitly but constantly brought back to their assumed family obligations in interviews, making this specific (and constructed) vision of femininity incompatible with the (constructed) large working schedules of the private equity sector.

past seven'... Of course, during a deal, I can spend the night working at the office, but if there is no deal I go at half past seven.

Beyond the emblematic dimension of the deal period and its physical tests (lack of sleep, stress, intense work), financial bodies are submitted to numerous other kinds of tests evaluating other kinds of behaviours: for instance, the appearance of fund managers is evaluated during their presentations to investors, managers of targeted companies, internal committees or the “annual review” that determines the progression of each fund manager in the hierarchy of the fund.

The selection and testing of bodies finally implies the exclusion of those who are judged not to be fit to manage financial capital. These processes of exclusion are particularly visible in the case of aged fund managers. The age pyramid of Starlight Partners (such as Impact Equity's one) begins at 25 and finishes suddenly at 50, with only one exception (the president of Starlight Partners, 60 years-old, kept in the company as a part-time employee). This age pyramid is not the product of a generation effect: Starlight Partners used to be composed of individuals from older generations within the “deal team”, but these individuals quit or were fired after they reached a certain age. Interviewees evoke explicitly the fate of fund members when they approach 50 years-old: after that age, bodies are said not to be fit to overcome the deal period test and the sleepless night that go along it. They have to quit the fund or to be expelled from it<sup>11</sup>. Contrary to questions related to gender or race, interviewees reveal easily the relationship of the private equity industry to age. For instance, one of them asserts with irony: “anyway, I think you've noticed that there are not so many people older

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<sup>11</sup> This exclusion of the oldest fund managers has also to be linked with the broader struggle for partner positions in private equity funds, in a post-crisis context in which the available number of partner positions has ceased to grow – this is detailed more in depth in part 2.

than 45 in the fund”. All (including those who will soon enter their 50s) are lucid regarding to the exclusion of aged bodies:

Question: And in your case, you think it’s going to happen to you [leave the fund or get fired because of his age]?

Jean-Louis, partner (47 years-old at the time of the interview): Ah yes, I think it’s going to happen to me, because I can’t go one like this with... No, it’s not possible, it’s too... (...) Me, I woke up at 5:30am [the day before], I went to sleep at 2am [the previous night] and I woke up again at 7am this morning, for instance... And it’s always like that, well, there is a time when you can’t anymore, well, it’s not possible, physically...

Sociologist: And what would happen here, should you lose [the habit of extended working schedules]?

Anthony, 35, investment director: Here, at Starlight, it’s simple... Quickly enough, you get beaten up [*tu te fais tabasser*], you get fired...

Similarly, even if it is difficult to extrapolate using only qualitative data, during my observation the turn-over was far higher for women than for men: in the 12 months following my observation, among the 5 women part of the “deal team” at my arrival, 2 left the fund or got fired (other women joined Starlight), whereas only one man (out of approximately thirty) left it. Here again, the body characteristics are indirectly at work in these voluntary or passive exclusion processes, in particular through the difficulty to submit to the body test of the sleepless night or the test of the model (women being considered as less likely to perform sleepless nights because of their assumed family life and less strong in Excel modelling than men).



*Figure: representation of the bodies of the “deal team” of a French private equity fund similar to Starlight Partners, as emphasised on the website of the fund (2017)*



*Figure: representation of the bodies of the “deal team” of a French private equity fund similar to Starlight Partners, as emphasised on the website of the fund (2015)*

## **Section 2. The body as symbol and moral justification of the figure of the financial investor**

After having detailed the processes through which bodies are selected and transformed according to hegemonic body norms in the observed investment funds, this section highlights how these norms are used by fund managers as instruments to legitimise their activity and their situation.

### *The body of private equity fund managers as symbol of performance, reliability and power in the financial agency relation*

The body norms of private equity embody the figure of the investor: in this perspective, financial bodies are used to symbolise aspects (reliability, performance) associated to this figure. The symbolic use of the body of fund managers is visible when interviewees evoke their role of representation in their daily interactions. During fundraising sessions, the bodies of fund managers are used as instrument to symbolise reliability and performance. The websites of private equity funds and the flyers that are distributed to investors systematically display face books of fund members (cf. figure at the end of the section). Similarly, before investing in an asset management company, investors systematically ask for physical meetings with the main partners of the company:

Jean-Louis, 47, partner: Yeah, quite often Steve's [fundraising] team tells us: 'oh, on Tuesday, we need you to be in London to see this potential investor for the new fund, he wants to see X and Y from the deal team'. Sometimes he wants a few people, sometimes he wants more people.

Similarly, during the process of investment in targeted companies, the body of the fund manager is displayed to the managers of companies: fund managers describe their physical presence in front of corporate managers here to introduce their company as a "commercial" presence. Their objective is to "seduce", or to the contrary to dominate

corporate managers by presenting them a specific body face. In these “pitch” sessions, the bodies of fund managers, their youth (and the academic precocity that it implies), the esthetical perfection, the fitness of bodies participate in creating a domination situation between fund managers and corporate managers – the enumeration of past “deals” and of the past trajectory of fund managers being the intangible counterpart of this body domination.

To the contrary, bodies diverging from the dominant uniformity (from removing one’s tie to provoke a relaxed atmosphere to sending female or racialised fund managers to meetings) are explicitly used by fund managers as instruments to make corporate managers feel confident, by presenting them bodies that look like them and reassure them instead of dominant bodies<sup>12</sup>:

Anne-Françoise, 43, director: Jean-Claude [her boss] told me: ‘anyway, for meetings with managers, you can go alone. Your seduction power is far stronger than mine and you reassure them. Me, I don’t reassure them: I’m a man, I’ve had a quite successful career, I’m old, I look important... So I don’t reassure them, I scare them, whereas you, you make them feel comfortable. Call me later, during the negotiation when you need a *bad cop*, I can play the big nasty guy from times to times if you need so, but I think that, well...’

### *The energy mystique, moral grounding of the body discrimination*

The symbolic use of fund managers’ bodies goes further than the mere embodiment of the cultural figure of the investor. The body is engaged in a broader moral justification of fund managers’ work. In this respect, it participates to the broader accumulation of symbolic and moral capital by the financial industry, itself required by the accumulation of financial capital. Physical suffering implied by the body tests that fund managers endure is interpreted as the

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<sup>12</sup> The sexist aspect of the underlying behaviour described in this interview extract, that forces female fund manager to abide by a specific vision of femininity, is evoked more in depth in section 3.



counterpart and the moral basis for their location at the top of the capitalist hierarchy.

Insisting on the “deal adrenaline”, members of Starlight Partner boast about their suffering as much as they complain about it. This positive view of physical suffering is illustrated by the following interview, in which a director of Starlight Partners asserts with a strong emphasis his admiration for those who manage to work more than his own (already large) working schedule:

Antoine, 33, director: So I very often draw a comparison between finance and sport because here in finance you can see many people who are, actually, kinds of athletes... Because you... You have to cope with a huge pressure, an enormous stress... You don't sleep a lot, you've working schedules that are, well... Difficult ones...

Sociologist: Yeah.

Antoine: And so you need a real physical resilience... And to be stress-resilient. And if you look at people who succeed in this job, these are people who have an enormous energy, who have huge stamina. (...) And I don't say that because I'm arrogant, I say that because for real, that's really what I see: people who are ultra-energetic... Each time I work on a deal and I see that we're still here at 3am, working like... Like dogs... And then I see the guy who continues, who pushes forward... And he can work until the morning without sleeping, and then he even continues to work during the whole day... When I see that, I say: oh la la, they're so strong [he laughs], even me I'm not that strong...

Sociologist: Hmm.

Antoine: Because I think that I have very, very good stamina, but when I see someone who surpasses himself even more than I do, I say... Woaw! [silence] And frankly, not everyone can survive in this kind of environment...

This interview extract shows the way the body tests of the private equity sector (the most emblematic of them being the night spent “working like dogs”) are promoted in a virile way; they are described as moments when the level of “energy” and “stamina” of bodies is revealed – turning the bodies “that survive” into intrinsically superior bodies (“athletes”). This mystique of energy, of the strong and resisting body contributes in its turn to naturalise the process of selection, normalisation and exclusion of financial bodies. Indeed, interviewees

frequently disparage the technical knowledge or the diploma they got in the past, asserting that all the knowledge they received during their studies was “useless”<sup>13</sup>: they assert that the decisive factor in their professional success is rather located in their body than in their academic trajectory, in particular in their exceptionally high level of “energy” and their ability to optimise this “energy”. For instance, the following interview highlights how “energy” is not only perceived as the body quality that makes a difference between the good and the bad fund manager, but also as a real resource whose level can be managed rationally in the fund manager’s body:

Question: And how do you manage to be ready to bear that rhythm?

Antoine, 33, director: Me, if you want, I often talk to Emmanuel [an associate] for instance, who has just arrived here, and I tell him: ‘I don’t care if you don’t know how to do things, if you’re lost, if you don’t understand, if everything seems new to you, if you’ve the feeling you do shitty work, and if sometimes actually you do bad work, but I don’t care. Because I know you have to learn, you’re here to learn.’ However, I say: ‘what I want, I want you to take care of yourself, to have some rest, to...’

Question: Wait, that’s a bit contradictory, isn’t it? With the fact of working until 3am, etc.

Antoine: Oh no, no, in the sense that... In the sense that you have to know how to manage your energy. Because when there is a peak time, I need him to be strong. So you see, when he has some respite he needs to be able to have some rest, he needs to be able to do sport, not to go out all night, etc. You know, to manage his energy. And I tell him: ‘the only thing I want is that you have energy, because I need that, I need an enthusiastic guy, curious, with energy. Then, if you don’t know how to do things because you’ve not the skills or the technique, that’s fine, you’re going to learn...’ You see? That’s something very important.

The link between the concepts of “energy”, “stamina” (or *gniaque*), on the one side, and the ability to succeed in the management of financial capital, on the other side, is

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<sup>13</sup> An assertion that has to be related to the very high and uniform diplomas of private equity fund managers: diplomas are not useless because they do not matter, but because almost all private equity fund managers have graduated from top business schools and universities (see part 2).

particularly explicit when interviewee evoke the issues of age or gender at Starlight Partners. In the case of gender, the low proportion of women within the fund, in particular women in their 30s and 40s, is frequently associated in the discourses of interviewees to the assumed impossibility for women to focus their energy on deals when they have to face, in the same time, other energy expenses in their personal life. The case of Anne-Françoise, a director at Starlight raising two young children, provokes the admiration of the other members of Starlight Partners, who acknowledge that they “do not know how she manages” to display so much “energy” in her daily work given her family workload. Similarly, regarding the age pyramid of the fund, the exhaustion of fund managers’ “energy” is cited to explain their exclusion of the fund when they get older, as shows this extract of interview with a partner:

Jean-Louis, 47, partner: That’s why no one is older than 50 at Starlight... Except Charles [Starlight’s president, 55, who remained as a part-time employee], but he is an exception...

Q: But what happens to people when they get older than 50?

Jean-Louis: You don’t have enough energy anymore. You don’t have the strength. (...) Actually, we don’t fire them because they’re too old, we fire them because they don’t work enough anymore... And they don’t work enough because they don’t have energy anymore, and that’s not surprising... So either the guy is lucid enough to say: ‘now I have no more energy’... Like Charles: Charles is working part-time now...

Q: And why was Charles able to remain here?

Jean-Louis: Because he does a lot of stuff, he makes a lot of projects... But at some point, he had no more the energy, he had no more the working rhythm... That’s why at some point, Antoine tried to... And Marc also: he wanted to... Well, actually everyone began to try to [fire Charles]...

### *The body as a moral justification of the figure of the investor*

The mystique of energy participates to a broader justification of private equity finance.

Beyond the fact that it is presented as the main source of success in the internal career tests of fund managers, the ability to resist physical suffering is also a source of legitimacy for the

figure of the financial investor in its relationship with society as a whole. In this respect, the sport metaphor of the previous interview is particularly illuminating: when he asserts that he sees “ultra-resisting people” around him, people that are “very, very resistant” and “people that are, actually, kinds of athletes”, the interviewee emphasises the exceptional nature of his colleagues – and asserts that the origin of their exceptionality has to be found in their bodies. The “economics of superstars” (Rosen 1981) that benefits to fund managers, both through their high income and the large amount of capitals that they are able to manage, is not only justified by the sport metaphor but also by the real belief in the exceptional nature of their bodies, that distinguishes them from ordinary mortals and justifies that they be located at the top of the economic hierarchy.

More broadly, practices of normalisation to which fund managers are submitted are perceived as a way to illustrate the ideas of perfection and performance, as shown explicitly by the following interview:

Question: I’ve a more general question, I don’t know what you... I see here people that work a lot, they go to sleep very late, during long periods of time, they are stressed, [but in the same time] they look healthy, quite young regarding to their age... How do they do, how does it happen when you enter this world, do you have physical conformation practices, do people tell each other which sport to do in order to be efficient...

Anne-Françoise, 43, director: [laughs] Well, I think that’s... It’s not an issue I’ve really thought about. (...) But then, actually I think that these are people, we are all people with a strong sense of perfection. Since our childhood. So, ‘you will be perfect’, you know, it’s a kind of syndrome... We really have a strong sense of this idea, ‘be perfect’, and so ‘be perfect’, it means: ‘you do a lot of sport since you’re very young, you’ve always been good at sport, you’re good at things that you perform [*tu es bon là où tu performs*], so you continue to do them’, a healthy mind in a healthy body, that’s a whole set of education that comes from a long time ago and that relies on the idea that: ‘I’m a complete being’ [*je suis un être complet*]. Well, I think that it results from this [idea].

Similarly, body sufferings induced by the body tests of the financial world are used as moral justifications of the profit appropriation that benefit to fund managers. This moral

aspect to body sufferings allows us to understand some of the facts frequently evoked by the literature, in particular the “workaholic” mindset of financial workers (Roth 2006) and their “Malthusianism” (Godechot 2007) regarding recruitments: the chronic understaffing of asset management companies does not only result from the need to maximise individual income and individual power over capital, but also by the need to provoke physical sufferings (resulting from the intensity of work) that in turn are used as factors of legitimation for financial activities.

The moral dimension of the sufferings and the display of energy from fund managers also appear in the numerous anecdotes and interview extracts detailing the sufferings inflicted (or sometimes self-inflicted) “for nothing” to other fund members, as in the following interview:

Jules, 29, investment director: Well, there is a way of working within the [deal] team... For instance, that you observe in this place or in other environments, let's take Starlight as an example... That looks enormously like the syndrome of the beaten child. That is to say that you have to manage all the people who are below you [in the hierarchy] really harshly [*à la shlague*], because you were raised yourself in a system where...

Question: What do you mean by raised ...

Jules: Well for instance at Starlight, juniors should be a bit bullied. Finally, that's fine if we make them work, go back to work during the weekend for nothing, if they work during the night, if they work... Because finally, you say to yourself, ‘I have suffered from that when I was in their position, [I have suffered in order to] to climb and to arrive to the place where I am now, I have achieved to obtain a status so high that I need to defend this status, this status wants me to, somewhat, denigrate those who are below me [in the hierarchy]’.

This relationship between body practices (and in particular sufferings) and moral justification appears in many interviews. For instance, the general secretary of Starlight Partners makes an explicit equivalency between the difficult working schedules of “deal team” members and the high compensation that they get:

Question: That's an issue that comes up very often, understaffing: why don't we hire more people, in the end I imagine there would be a cost to that but

Marie, ~55, general secretary: Because we don't necessarily need someone to work from 9 to 5... It [recruiting additional people] won't prevent them from working during weekends [sic]... And that's also a matter of cost management... They are very well paid, so... In exchange, they have to work a lot... That's the other side of the coin, if you want...

Question: Hmm.

Marie: I know that here, at Starlight, they've always been telling us: 'yeah, they complain, they complain, but they're extremely well paid, so that's fine'...

The “other side of the coin” metaphor explicitly underlines the ambivalent dimension of the relationship between compensation and body sufferings in the private equity industry. The interviewee seems to insist on the fact that high wages compensate physical suffering, but in this extract, it also appears that physical sufferings are (moral) compensations for exceptionally high remunerations. In this respect, body tests and sufferings are sources of legitimacy for the high remuneration and social position of fund managers.

Therefore, the body of fund managers appears to be an instrument used in the legitimization of the social order resulting from inequalities in the distribution of power over financial capital. This implicit social order is ultimately justified by the concept of “energy”: an intrinsically bodily factor, “energy” is revealed through some (virile) body tests such as sleepless nights and stress. In turn, the “energy” attributed to financial bodies is used to naturalise and to justify morally the fact that investors are able to manage huge amounts of financial capital and to benefit personally from this situation. These justification instruments operate both in regard to peers (the body sufferings are used to justify the progression of successful fund managers compared to their unsuccessful peer) and in regard to society as a whole.



*Figure: online face book of a fund similar to Starlight Partners – each fund displays a face book of its “deal team” on its website and on the flyers that it distributes to investors and targeted companies*

### **Section 3. The bodies of fund managers as places of moral and political struggles**

#### ***Body distinctions in the struggle for capital***

I have emphasised the uniformity of fund managers' bodies (in regard to the rest of the society), but this emphasis should not conceal the logics of distinction at work in the struggle for financial capital. Within the "field" (Bourdieu 1992) of private equity finance, the body capital is evaluated according to specific symbolic interpretations (for instance, the mystique of the body "energy"). However, these interpretations are neither totally uniform, nor historically permanent. Therefore, some specific financial actors distinguish themselves from others in order to embody better the body symbols of private equity, or to the contrary to contest mainstream symbolic regimes and to promote new interpretations of the financial body. This distinction struggle often takes a subtle aspect, as in the following interview in which a director, who wears his tie all the time as opposed to the more occasional tie of younger fund managers, expresses his fears of becoming obsolete ("old school"):

Alessandro, ~40, director: And typically, personally I wear the tie all the time, sometimes I may be wrong, but here there are some people who... Marc [the CEO] always wears the tie, some of them don't wear it all the time, there are even some people who never wear it... There are groups that wear the tie more or less. (...)

Question: Because it's a good thing not to wear the tie here?

Alessandro: Yeah. But that bothers me [*ça m'emmerde*] not to wear it, because then you still have to wear it when you welcome people from the outside, so...

These logics of distinction are sometimes related to deeper factors, being integrated to the "investment strategy" of an individual or even an asset management company as a whole. For instance, an impact investing fund such as Impact Equity has defined an investment strategy based on investments in companies managed by "diversity" managers, i.e. women, racialised or disabled individuals. As a consequence of this strategy, the fund has recruited as fund managers far more women (40%) and racialised individuals (40%) than the average



private equity organisation (and Starlight Partners). As a result of this, Impact Equity has been able to attract niche capitals (funds of funds specialised in social and impact investment) and to seduce specific entrepreneurs (women or racialised individuals) that Starlight Partners, for instance, would not have managed to attract. This engagement in a reinterpretation of the financial body is not only motivated by an activist approach but also by the need to find capitals and companies through specific means and networks, networks in which the marginal body characteristics of Impact Equity's fund managers are considered as a positive factor.

### *Contestations of the body norms of private equity finance*

The legitimacy crisis of the figure of the investor following the 2008 financial crisis has also affected the legitimacy of the body norms of private equity. In the wake of the crisis, private equity funds have been encouraged to engage in “social”, “environmental” or “diversity” policies – these diversity policies being understood as a more active participation of finance in the struggle for gender and race equality. This critique has been expressed in France through a set of initiatives aiming to shift the body norms of private equity. In 2011, the French association of private equity funds (*Association française pour l'investissement en capital*, Afic, now FranceInvest) launched its women club “L’Afic avec Elles”, managed by the female partner of a French impact investing fund, with the aim of promoting women working in the sector (“the Afic wishes to promote actively sex diversity within the private equity industry, sex diversity being a source of wealth and factor of performance”: Afic 2017), along with a yearly survey (Baromètre Afic-Deloitte) of the sex diversity in the private equity industry. As a consequence, since the early 2010s, most of the French private equity funds have grasped the issue of the body through the issue of “diversity” of their management teams. For instance, Starlight Partners created an internal “Diversity and Social Responsibility” committee. My observation in the fund as an intern is the result of this internal shift: I am in charge of producing a report on the “levers” for “increasing diversity”

within Starlight's deal team.

Similarly, Impact Equity has the explicit aim of promoting “diversity”, both within its team and within the management of the invested companies. This means that the body is interpreted in a different way in the context of Impact Equity. Body uniformity of fund managers is far weaker, and the body practices at work in the fund are different from the body practices of the rest of the sector: time schedules are relatively regular and less exhausting (fund managers generally stop working at 7pm and very rarely after 9pm), the working environment is less stressful. Beyond that, the bodies of fund managers are put into play in an original way by the commercial positioning of the fund. The recruitment of women and people from diverse ethnic backgrounds enables Impact Equity to make its “impact” investment strategy (based on the struggle against discrimination and the support of “inclusive” companies) more credible. Fund managers at Impact Equity refer to a hybrid figure, between the figure of the investor and the figure of the social entrepreneur, resulting in a specific interpretation of the body within the fund. Impact Equity also develops partnerships with organisations specialised in promoting “diversity” in companies: it participates in the elaboration of an “award of diversity growth companies”, in clubs dedicated to companies managed by women or people from poor neighbourhoods. These partnerships also enable Impact Equity to increase its “deal flow”: the engagement of fund managers in the reinterpretation of the body is not only motivated by a political, activist approach, but also by the will to find new “investment opportunities”, i.e. new companies that fit the social criteria of the fund, through the participation to networks in which the fact of having “diverse” body characteristics is considered to be a positive factor.

The questioning of the body norms of private equity funds, undertaken partly in the aim of re-legitimising the private equity sector, has to be linked to the external constraint exerted by investors (most of them institutional investors) on the asset management

companies – these institutional investors being themselves submitted to public pressure. Interviewees at Starlight Partners explain that this pressure, already existing but easy to ignore in the 2000s, has become stronger since the financial crisis. In particular, this constraint gets exerted through what my interviewees call “London”, that is to say the team located at the City headquarter of the transnational asset management company in charge of raising funds for all the branches of the company, as shown in this interview (in which the interviewee displays an implicit reluctance to “diversity” policies, probably due to his own position as a young male fund manager):

Jules, 29, investment director: Well, let’s talk about the issue of Jeanne’s recruitment first... So, we’re not allowed to say that we want to recruit a man or a woman, but let’s stop telling lies: the objective was to recruit a woman. Ideally. And that’s what they did. And if you want to know why, I think there was some pressure, or at least very insistent demands from [the fundraising team in] London... Yes, [they asked us] to recruit a woman, because, well, it looks good...

The pressure that management team has to endure from London and from investors is also visible in the anecdote of a female director at Starlight Partners, evoking how investors insist on the feminisation of fund management teams during fundraising meetings:

Anne-Françoise, 43, director (#6-10 in Starlight hierarchy): The first time I had a meeting with an LP [limited partner, an investor], there were Charles [Starlight’s president] and Marc [Starlight’s CEO], I don’t remember which LP it was, maybe an American one, US Pensions, well... And at some point, the guy said: ‘why don’t you have more women in the private equity industry?’ Marc began to explain: ‘you know, because it’s complicated, we’ve difficult working schedules, it’s not easy to recruit’... The guy replied: ‘in law firms, there are tons of women, so why?’ And they replied: ‘that’s different, that’s not the same thing’, and so on and so forth...

Therefore, as bodies are used by fund managers to justify morally and symbolically the figure of the investor, the crisis of legitimacy of this figure provokes the questioning of the body norms of private equity, through the topic of “diversity”.

*“Diversity” policies, the promotion of hegemonic femininity and non-whiteness, and the transformation of the body norms of private equity finance*

However, these “diversity” policies do not result in the abolishment of the body norms of private equity finance, but in their reformulation (on the managerial interpretation of the diversity category, see also Bereni 2009 and Pochic 2018). Indeed, even if they allow some actors to contest the majority symbolic interpretations of the body in the private equity sector, they do not put into question the existence of such interpretations. To the contrary, new symbolic interpretations of the financial body emerge as “diversity” policies are integrated to the struggle for financial capital, as part of the logics of body distinction, “diverse” bodies being evaluated on their ability to embody new investment and fundraising strategies. In the two funds I observed, these policies result in the selection of specific types of diversity (with a strong focus on gender and race diversity) and the exclusive promotion of hegemonic forms of femininity and non-whiteness.

For instance, in a (non-recorded) interview, a partner of Starlight expresses to me his openness to the recruitment of individuals from immigration or working-class origins. But he tells me that, in his view, there are conditions to the success of these kinds of individuals in investment funds: they should have “adaptability” skills, he explains, meaning that their difference should not create any friction in the working environment of the fund. However, he explains that many of these individuals are indeed adaptable people. He bases his reasoning on the idea that the selection steps that such individuals will have passed through are numerous, far more numerous than white people from a wealthy background. He argues that people from immigration origins who pass all these steps and manage to get recruited at Starlight Partners have demonstrated the breadth of their “energy” (*niaque*), their ability to be “ambitious” (*avoir les crocs*) more than the current members of the private equity industry –

their diverse bodies being symbols of their superior energy and merit. As such, he clearly advocates for specific kinds of working-class and non-white bodies.

Similarly, some of my interviewees make positive interpretation of female bodies by providing them with specific advantages in the context of negotiations. Feminine bodies are sometimes said to be better to achieve negotiation objectives that would not be achieved through masculine, standard bodies:

Anne-Françoise, 43, director: I am convinced of something, sometimes it's far easier to be a woman in a masculine environment than the contrary. (...) The majority of men will be less aggressive with a woman than they will be with a man, because they dare not [be aggressive with women]. (...) I am convinced that, finally, if you have a woman in the room, things are far easier.

When they seek to emphasise their positive view of “diversity”, interviewees frequently evoke the assumed positive outcome of diversity on the financial performance of funds. For instance, interviewees at Starlight Partners and Impact Equity assert that the uniformity of bodies and trajectories results in the uniformity of financial practices, which would have a negative effect in financial terms. To the contrary, interviewees at Impact Equity assert that the recruitment of women or people from non-European ethnic backgrounds would allow the fund to develop more “original” investment theses with respect to other fund managers with more conventional bodies, allowing the fund to avoid participating in the next speculative bubble thanks to a contrarian approach. In all these examples, the openness to feminine and non-white bodies is counterbalanced by very specific expectations regarding the behaviour of these individuals.

Therefore, the idea of body “diversity” in private equity does not end up with the neutralisation of the body in fund management activities, but to its use as an instrument according to different modalities, some body characteristics being reinterpreted in a positive way (although the positive value that circulates is not equally allocated to all bodies carrying

this characteristics, but depends on specific *values* regarding how these bodies should behave: “diversity” policies observed here do not result in the promotion of women in general, but only of hegemonic female bodies in the management of capital) and some others in a negative way. “Diversity” policies become a new repertoire, with an inclusive tone, as opposed to the usual elitist repertoire of the “energy” mystique, to legitimate the appropriation of financial profit by fund managers. These new interpretations of the financial body perpetuate the use of the body in the struggle for financial capital. The deal teams of the observed funds have included more women and people from non-white ethnic backgrounds, but these female and non-white bodies are subject to strong body norms, as they are asked to perform hegemonic forms of femininity and non-whiteness.

## Conclusion

In this part, I have investigated how the legitimacy of fund managers to attract capital is built through space and bodies. Private equity funds and their managers are inscribed in space in several ways: both because they belong to physical places with a specific meaning (for instance, in the case of the building of Starlight Partners, its social and geographical centrality in the Paris bourgeoisie), because their physical locations have consequences on their internal functioning (as the disposition of offices reveals, shapes and supports hierarchies between fund managers), and because they deploy investments according to spatial logics (some kinds of places being associated to “investment strategies”, investments being based on political and cultural interpretation of space). Similarly, they are inscribed in bodies through their transformation (bodies are selected, transformed and excluded through time), their staging (the emotions, sufferings, excitation of bodies is symbolically displayed), and their constant interpretation (as bodies are associated to alleged investment strategies depending on their characteristics, in way that changes through time). This spatial and body dimension of legitimacy to manage capital is based on specific cultural norms of the private equity sectors, that can be contested historically: crisis or emerging actors of the sector have contributed to modify the body and space norms of private equity (by promoting “diversity” or “contrarian” approaches of investment over the French space), influencing in turn the symbolic hierarchies of the sector.

## **Part 2. Displaying hard work to become a *rentier*<sup>14</sup>: the symbolic transformation of wage-earners into capitalists**

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<sup>14</sup> By *rentier*, this dissertation does not mean that senior fund managers would not have to display work anymore. However, the relationship between their work and their income becomes far looser, as their income is incommensurable to the income of wage-earners at the bottom of the organisations (turning them into working rich in the sense of Godechot 2007: although they work, their income is implicitly derived from capital) and is less indexed on their financial performance (due to the specific distribution of fees and carried-interest explained later in this part).



## Introduction

At the beginning of my ethnographic observation at Starlight Partners, I had my first interview with Bertrand, a managing director (last rank before partner, the best rank in the hierarchy of a fund). As I entered his office, he invited me to sit in but told me that before the interview, he had to call the manager of a company the fund had recently bought in order to “make things clear”. He let me listen to the call in his office, in order to show me “the kinds of things we do” in the private equity industry. Even if the discussion remained quite opaque to me, as I was only hearing half of it, Bertrand agreed shortly afterwards to explain me what was in the telephone call. When Starlight Partners bought Industria, an industrial business specialised in producing high-tech devices, the fund replaced the former CEO by a new one in order to implement the “business plan” that motivated the buyout. The phone call was taking place a few days before the first visit of the new manager in the offices and the factory of Industria, in the north of France. In the mind of Bertrand, the phone call aimed to help the new CEO to adopt the best attitude during his arrival in the field of Industria. As such, the call reveals the representations that support, in Bertrand’s mind, the way a manager and a financial shareholder should behave in relationship to each other.

Initially, Bertrand explained to me that he wanted to send to the new CEO a “message” in this phone call: the new manager had to be flexible and receptive during his first interaction with the staff. “It’s around Amiens [industrial city in Northern France]... the workers of the factory are quite trade-unionised... to put him [the new CEO] in the best conditions”, he says with irony, “it’d be better to avoid beginning with a strike”. Indeed, the “business plan” adopted by Starlight Partners in its buyout of Industria was “rather ambitious”. This plan implied to “wake up” a company that was deemed as profitable but that “could do better”: as such, the new CEO had been chosen precisely for his ability to be quite “tough”. However, a few days before, Bertrand had received an email from the future CEO,

asking him (as a fund manager in charge of representing the new major shareholder of the firm) if he found necessary to invite the president of Industria during the first official visit of the factory. Bertrand explained to me that the president of Industria was the former CEO of the firm. They decided to keep him in this honorary position in order not to create too much turmoil in the company's management and to favour a smooth transition between the two CEOs. Nevertheless, according to Bertrand, the new CEO seemed to think that Starlight Partners was actively supporting the president and former CEO, that the fund was protecting him or was having a "hidden agenda" regarding him. As a consequence, this email changed Bertrand's mind about the content of his "message" to the new CEO.

Whereas he was initially calling the new CEO to moderate him, Bertrand told me, he now wanted to send him a message of firmness. Bertrand wanted to let the new CEO understand that "he [the new CEO] was holding the wheel [in French: *c'est lui qui a les manettes*]" and that he had to "feel at home" in his new role of CEO. More specifically, he asserted that "if [the new CEO] wants to oust [the president, former CEO], he should do it: we are supporting him [the new CEO], we don't care about the other one". Then, he corrected his assertion: "he shouldn't do it as a matter of principle, just to eliminate a rival, but if he finds it necessary, he has to know that he has the ability to fire [the president]". This freedom had an implicit counterpart in the discourse of Bertrand. The new CEO had to feel fully "responsible" of his choices within the company: he had to feel free to fire anyone in the company, including the president, but this responsibility carried some risks for him as well. In a way that reminded me of the agency theory, Bertrand was assuming that, as he had been given all the powers within the company, if the new CEO achieved a poor financial performance during his stay in Industria, then he would be considered as responsible for this performance and fired in his turn.

To conclude, Bertrand related this phone call to his position in Starlight Partners. The way he led this phone call, that he described as very professional and smart, was justifying his personal ambition to be nominated as a full “partner” within a few months. “The five minutes you’ve just seen”, he told me, “are very short but extremely important. If you fail these five minutes and you send the wrong message, you risk spoiling all the operation”. According to him, this is the reason why these kinds of tasks are performed by “senior” fund managers (with a high rank and a long experience) and not by young analysts or associates. In order to send the good “message”, one had to have a long experience and a good knowledge of the job of financial investor, that were available only to people having at least the rank of managing director or partner, according to him.

Bertrand’s discourse reveals how fund managers get integrated in the symbolic struggle for capital that this dissertation intends to study. When he tells me about his wish to progress in the hierarchy of the fund and to access the rank of partner, the highest possible rank (except executive functions like CEO or president), Bertrand emphasises not only his need for symbolical recognition, but also his wish of financial accumulation. Indeed, individual trajectories within private equity funds should be understood as part of a broader opposition between wage-earners and capitalists in investment funds. When he tells me about his wish to become a partner, Bertrand implicitly outlines his desire to cross definitively the border between the status of wage-earners, that earn money depending on how they work, and the status of capitalist, that benefit from a capital rent and earn money whatever their own personal work is. He is already a director, which could be described as an intermediate status between the two positions (he earns an important wage but is also strongly incentivised to the profit of the asset management company), but he intends to become a partner in order to be fully part of the capitalist status (and to receive a stronger share of the profit of Starlight

Partners) – and asserts that the way he talks to Industria’s CEO would make him fit to access this capitalist status.

In this part, I intend to study the relationship of fund managers<sup>15</sup> to this opposition between wage-earners and capitalism during their trajectory in the private equity world. More specifically, I aim to understand how financial work within such funds can be interpreted as a competition for the status of capitalist, this struggle taking the shape of a symbolic struggle. Indeed, while struggling for high hierarchical positions and personal wealth, fund managers have to construct their own financial “charisma”. In this respect, this dissertation refers to concept of “charismatic domination” by Weber (1921) – as in Weber’s text, it highlights that the domination of top fund managers such as partners is not based on their intrinsic, but on the relationship they have with their subordinate, and in particular on their ability to stage their charisma through specific rituals and ceremonies (an interpretation of the “charisma” concept consistent with its later use by Bourdieu 2001). The use of “charisma” to display a hierarchic superiority in finance has been namely highlighted by Godechot and Montagne – as Godechot asserted how the pioneers of derivative trading were engaged in a “both financial and intellectual adventure” in which they had to display a “particularly charismatic character” (Godechot 2005:125), an observation later confirmed by Montagne’s work on “go-go” managers (Montagne 2014). As the Bertrand anecdote shows, fund managers willing to be considered as potential partners have to emphasise the depth of their personal vision and their extreme tactfulness. In order to access the superior stage of the symbolical hierarchy of private equity, fund managers have to undergo a succession of steps that provide them with

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<sup>15</sup> The category of “fund managers” gathers very distinct kinds of financial workers, from analysts doing mundane work for a reasonable wage to partners doing prestigious work and receiving a far higher remuneration. In this part, when relevant for my argument, I operate a distinction between “senior” and “junior” fund managers.

the symbols (for instance, a prestigious “track record”) and techniques (for instance, the ability to show their “character” and their “vision”) of the partner.

In this perspective, the status of capitalist gets embodied following a progressive evolution. During their trajectory, some individuals undergo a status transformation (whereas other are eliminated from their professional environment or stagnate at the same hierarchical level), switching between the status of wage-earning fund managers to the status of capitalist “deal makers” able to corner a share of the income of the fund. Reciprocally, this part also investigates how the struggle for capital at the individual level is mediated through symbolical means, by evidencing how the sector is periodically purified of some of its members, made responsible for the “bad deals” revealed by financial crises. As such, this part details how individual trajectories and the distribution of the capitalist status are symbolically organised and suggests that fund managers are engaged in a symbolic competition to get associated to successful deals.

Such processes of socialisation have already been described previously. The division between wage-earners and capitalists in finance has been studied in much depth by Godechot (2006, 2007, 2008), showing how this division relies on the specificity of financial work and workers – financiers and bankers being able to embody a portion of the capital of the institutions they work for through their network and past trajectory. Recent works on M&A bankers have detailed the norms of a financial profession very similar to private equity fund managers, emphasising the division of labour, the specificity of the status of “partner” and the shape of careers in this sector (Boussard and Dujarier 2014; Boussard 2018). Similarly, the professional socialisation of investment bankers has been studied ethnographically by Ho (2009), emphasising how the deliberately elite recruitment of investment bankers enables them to develop a ruthless professional culture. The way “elite jobs” are defined and framed

by the rituals of “elite recruitments” is also highlighted (for investment banks, consulting firms and law firms) by Rivera (2015).

Therefore, I intend to describe how the search for the status of capitalist (that is itself a search for capital, as the status of capitalist is associated with a financial rent) interacts more broadly with the symbolic struggle for capital in the private equity sector. To do so, I study the symbolical means through which the personal charisma of private equity fund managers is constructed, by focusing on how the quality of the “deals” is embodied by managers and how managers are more or less credited for the “deals” they participate to. In particular, I show how the trajectories of private equity fund managers depend on their ability to associate themselves to good operations and to dissociate themselves from “bad deals”.

Beyond the understanding of the mechanisms through which fund managers compete for the status of capitalist, I intend to study the construction processes of the status of fund managers in a moral perspective. The status and symbols of fund managers should also be understood at the light of legitimising practices of private equity investors, be they legitimising internal hierarchies of the private equity sector (for instance, legitimating the superiority of the partner over the member of the middle office in order to justify their higher remuneration and power within the organisation) or justifications directed to the rest of the society (legitimating the income of fund managers towards investors or the public opinion). As an instance of that, the specific position of work could be described as an emblematic instance of this moral dimension: financiers are engaged in an agonistic way (Boussard and Dujarier 2014) in their working activity, excluding for most of them a normal social and family life. But this particular engagement in the financial work is also used to justify the exceptional remuneration of fund managers: it is its counterpart, in such a way that the agonistic dimension of financial work appears to be produced by a justification need. Beyond

the competition for high ranks, I investigate how financiers' symbolic activity can be understood as a way to justify their position.

### **Chapter 3. Symbolic hierarchies of private equity and fund managers' different forms of symbolic capital**



## **Section 1. Displaying symbols of the elite social class**

### *Prestigious diplomas*

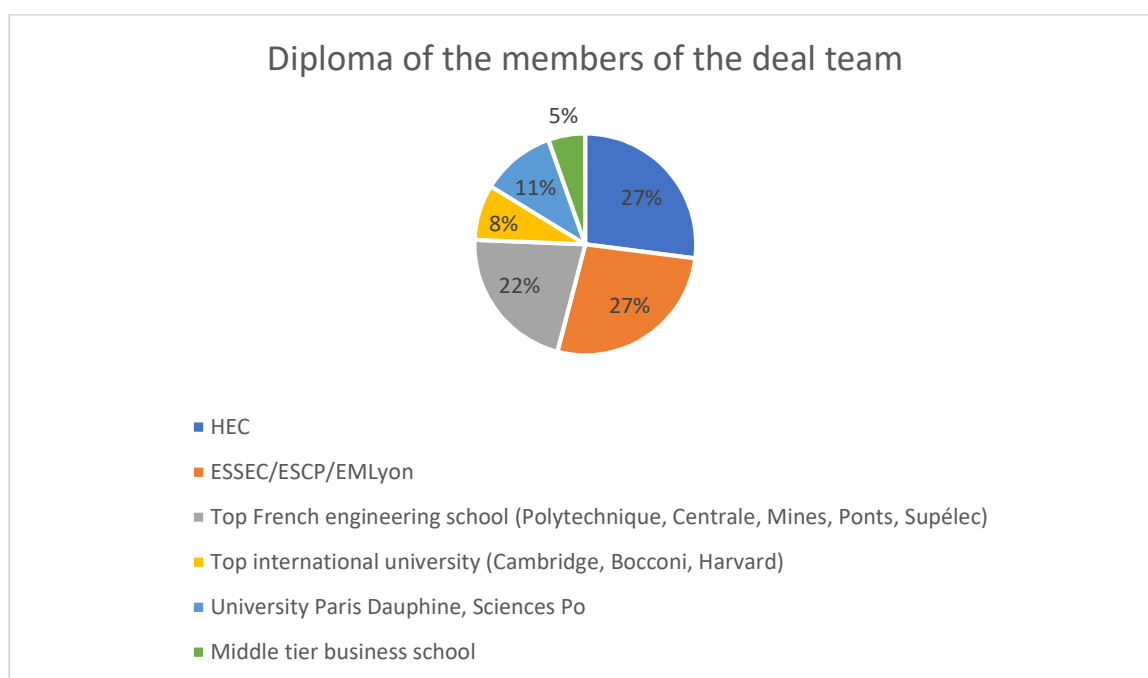
During my observation at Impact Equity, the investment director of the fund tried at some point to explain me why the failure of the Tacos deal (see next part for more details about this deal) was so disastrous for them. To explain it, he began by telling me: “we’re a high value added profession”. In saying so, he revealed how fund managers consider themselves: superior workers, whose time is more precious and that naturally concentrate more resources, power and generate more “value added” than others.

In the same way as the claims of intellectual superiority by investment bankers (and their “smartness” described by Karen Ho (2009) and Boussard (2018)) was based on their social and academic selection within the most prestigious US universities, the identity of private equity fund managers is strongly tied to their elite recruitment practices. Deal team members have extraordinarily straight trajectories from social and academic points of view. According to an interviewee, the “deal team” of private equity funds can only gather very “competitive” profiles: interviewees frequently assert that in front of the bulk of “excellent profiles” during recruitment processes, they are almost forced to select individuals with elite trajectories. As a consequence, most members of the observed funds have graduated from the five top Paris business schools (HEC, ESSEC, ESCP, and the Finance tracks of Sciences Po and Université Paris Dauphine). At some point during my observation, one of the partners of Impact Equity (that aims to be an atypical fund, therefore distinguishing itself from the norms of mainstream finance) even asserted that there are “too much HEC [people]” in the fund regarding to its social purpose and joked that the last recruit of the fund (himself from HEC) would be the last graduate from HEC that they would ever recruit.

In addition to business schools, some fund managers also graduated from some of the main Paris engineering schools, such as Polytechnique and Centrale (approximately a third of

Starlight’s managers, even if this proportion varies depending on the fund, some funds having the reputation of being “engineers’ funds”). Most of my interviewees underline the absence of significant difference between graduates from the top business schools and the top engineering schools represented in the observed funds (for more detail on how business schools consider themselves increasingly as training schools for the financial industry, see Boussard and Paye 2018). However, despite that, interviewees frequently emphasise the necessity for engineers to train their social skills when they arrive in finance; reciprocally, they frequently describe graduates from engineering schools as better in modelling (these fund managers are more frequently allocated to deals related to technical sectors, such as the financial, the military or the software edition sectors).

Within Starlight Partners and Impact Equity, the composition of the deal teams in terms of academic origin is the following (double diplomas are not taken into account – only the first diploma is accounted for, despite the fact that some fund managers have double graduations, such as ESCP and City University, Polytechnique and Pompeu Fabra or HEC and Harvard):



To the contrary, graduates from other schools than Paris business schools have to catch up permanently their lack of status by displaying their hard work. The stigma of a second-tier business school diploma (also studied by Muniesa and Ortiz 2018) remains all along their trajectory and, as some of these individuals explain during interviews, is often noticed by their colleagues a long time after the beginning of their career, as the following interview extract shows it:

Question: So I'd like to ask you some questions... I've checked your trajectory on the website of Starlight, and I saw that you graduated from HEC...

Investment director: No. Actually, I went to HEC... I went to a state university in economics, then MBS [Mediocre Business School] and then, I got a one-year specialised master from HEC [different from the *grande école* standard diploma with a four-year curriculum]. Finally, Starlight mentioned HEC on its website because, well, it looks better...

(...)

Q: Okay, and you had an internship at Vendôme, it's quite rare to be able to have internships in private equity...

Investment director: Yes... It's quite rare, and even more when you are at MBS, it's a second-tier school and it was all the more difficult, but I choosed to persevere and I ended up in Vendôme, so I was lucky. At that time, I had sent around hundred CVs to employers and finally I had found this internship...

Q: Okay, and how did you feel about that, why did you do this specialised master in HEC after you graduated from MBS, was it because you...

Investment director: There are several reasons. In the M&A and PE professions, people have big CVs so you have to inflate your CV, always, and that was unfortunate for me. So at that time, people at Vendôme Capital told me, frankly you're a super guy, you do an enormous work, but you have to improve your CV because it's necessary, and we know this specialised master at HEC, it's a really good one, there are people at Vendôme who have graduated from it, you should check that. So I looked into that.

(...)

Q: All right. Okay. And here, I have the feeling that there are many good students with very good diplomas, etc. How do you feel it, precisely given the fact that...

Investment director: Oh [sighs]... How do I feel it?

Q: Maybe you don't want to...

Investment director: No, no, I don't feel any particular embarrassment. Then, there is always... Actually, when my diploma is a problem, it's most of the time with people that don't know me, but people have so much prejudices, and that's funny because sometimes [laughs]... I hear people here saying: "what the fuck, you've seen this CV, this diploma, what is this school: Mediocre Business School?" And actually they forget the fact that I graduated from MBS...

Q: Sometimes there are people from MBS who apply and...

Investment director: I won't say who it was, but... The other day, there was a CV, and he said: "oh, what a shitty school, really..." He had probably forgotten [that I had graduated from MBS], but still – that's a little bit... That's funny, actually I live this situation positively, that's a bit like a daily life struggle, if you want.

As a result of this long-term academic stigma, all the individuals that have graduated from second-tier schools and that have managed to get integrated into a private equity fund work into dominated deal teams – impact investing funds (Impact Equity) or the "smid-cap" deal team of Starlight Partners (as opposed to the "mid cap" deal team, more elderly and prestigious). These individuals are very rare (only two of them at Starlight Partners, out of approximately 50 fund managers) and their interviews reveal an acute awareness of their position. Similarly, the exclusive recruitment of the deal teams among graduates from the best business and engineering schools distinguishes deal team managers from middle and back office ones in an irrevocable way. The split between these two worlds is explicit in the discourses of interviewees, as middle office members are clearly aware of the impossibility for them to access to the deal team later in their career, due to the perceived inferiority of their academic titles.

The attention to the academic trajectory is not limited to interns or young recruits, but it persists all along the career. In an interview with Marc, the CEO of Starlight Partners (an HEC graduate), Marc wonders about the trajectory of one of his colleagues, the CEO of Vendôme Capital: he judges that the colleague has deserved her extremely impressive career but that it was an "highly unlikely" one, not because of the fact she is a woman (and one of

the few woman managing a major LBO fund), but rather given the fact that she was “not coming from a *grande école*”. As he explains to me, she is “only” a graduate of Sciences Po and Bocconi (that he considers to be inferior to an HEC diploma) – showing that he cares about the academic curriculum of his competitors even twenty years after the end of their academic trajectories. Similarly, the day I arrive at Starlight Partners, he examines swiftly my CV and advises me “not to talk about [the universities of] Edinburgh and Nanterre” in my relationships with the deal team, as these universities were looking a bit eccentric to him, and to only tell them about the fact that I was “a Sciences Po graduate”.

The struggle for accumulating prestigious curricula goes beyond diploma and continues with internships and first jobs. In the same way as business and engineering schools are used as labels that financiers display and that enable them to evaluate their relative worth, internships and early career jobs are considered as kinds of diplomas (as shown by Stenger 2017) that can be useful in their future trajectory in the private equity sector. Some of my interviewees tell me proudly about their first job “at Mac [McKinsey]” and evoke prestigious names like “BCG”, “Rothschild”, “Lazard”, “Goldman” as symbols that are self-evident and reveal the high quality of their bearers, or at least their ability to have successfully passed very competitive selection procedures. For instance, in the following interview, the interviewee tells me about his rising trajectory, from a business schools that he calls an “average one” (even if it is in the top Paris business schools) until an investment director position at Starlight, and explains me how the professional labels (in particular the “Goldman” label) have been crucial:

Q: All right. And what did they [recruiters at Starlight Partners] assess during your job interviews? What were the important points?

Investment director: I think that they assessed the compatibility of personalities [*compatibilité d'humeurs*] above all. They had no doubt about what I was able to do, in terms of technique, and I think that...

Q: Because you had just spent 4 years working at Goldman Sachs...

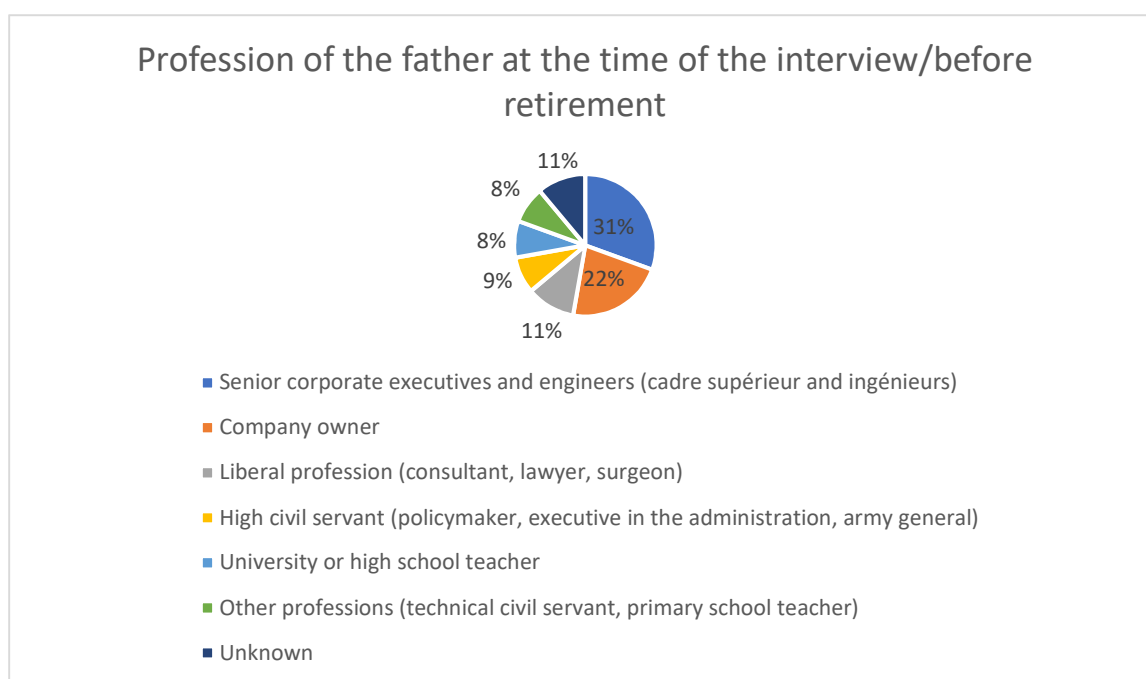
Investment director: Exactly. And they also had my reference letters, so I think they had no doubt.

Interviews reveal a strong confusion (already noticed in the literature: Godechot 2005; Ho 2009) between professional and academic trajectory, in such a way that professional choices often appear to be taken on academic grounds. For instance, when I asked an interviewee why he decided to go work in the private equity industry, he asserted (in a non-recorded interview, as he refused to be recorded): “as far as I remember, I had always dreamt of being an Harvard student”. After his Paris business school, he made his professional choices depending on the ability of his employers to pay him an MBA at Harvard Business School (and finally succeeded). Similarly, another interviewee defines her professional trajectory as essentially guided by “curiosity” and the “desire to learn”. She asserts that her professional ruptures had been provoked by stagnation periods when she “was bored” and that she had based her professional decisions on her ability to “continue to progress”, as if she were envisioning her professional life with the same criteria that she had used during her (very prestigious) academic life.

#### Corporate finance family roots.

In addition to these academic origins, private equity fund managers (at least at Impact Equity and Starlight Partners) originate almost exclusively from the upper class and, for many of them, from families involved in the corporate finance and corporate management world. At Starlight Partners, for instance, deal team members almost all belong to the upper class (with a status higher than *professions intermédiaires* in the French socioprofessional classification) – to the exception of one fund manager from the Smid cap deal team, whose mother originates from the *professions intermédiaires* class (as she is a primary school teacher). The social composition of Starlight Partners replicates quite well the social composition of a business school like HEC (detailed in Bourdieu and Saint-Martin 1987 and Lambert 2010), with an

over-representation of children of company-owners and liberal professions (such as lawyers) to the expense of children of workers and agriculturists. Here are the social origins of the fathers<sup>16</sup> of the members of the deal teams of Starlight Partners and Impact Equity (the profession is unknown in cases where I was not able to ask, for instance because I learnt that the father was deceased at the time of the interview, because I was not able to interview the person or because I felt it was not appropriate to ask in the interview context – in most cases, a low social origin is associated with a low hierarchical rank, even if my data is not large enough to have any systematic view on the correlation):



Despite the notable exception of fund managers with a family background of teachers (they are numerous at Starlight due to the academic tropism already evoked), accounts of their social origins by interviewees evidence the continuity between family and professional socialisation. In some cases, this continuity is particularly striking: for instance, Jean, a director at Starlight Partners explains to me that he is the son of a famous BCG consultant,

<sup>16</sup> As is usually done in social stratification works, to avoid generational effects linked to the recent feminisation of the French labour market with the mother profession variable.

that had recruited the current CEO of Starlight, Marc, at the BCG (where Marc met Jean, only a teenager at that time). Ten years later, after he had done a few internships at BCG, Marc recruited Jean in return. Similarly, an investment director at Starlight Partners tells me that she comes from a family of business lawyers specialised in M&A deals; after the interview, I double-check the information and notice that the family law firm has even intermediated several deals of Starlight Partners in the past years.

Beyond those who were directly born in the corporate finance world, most of my interviewees have social origins that make them close to the spheres of corporate top management. Company owning family origins are particularly frequent in the two funds I observed. An intern at Starlight Partners tells me that his parents (that can afford not to work anymore) have become wealthy after having created a start-up and sold it in the 1990s-2000s. The parents of another intern own an important group of companies in the former French colonies. The family of an investment director of the fund owns an important share of a large international distribution group. Similarly, one of Impact Equity's partners asserts that he worked several years in "the family company" before going to work in finance.

Interviewees frequently stage both the closeness and the distance between their contemporary financial work and their family origins in company owning or management. For instance, in an interview (recording was rejected), the investment director whose parents own an important share of a distribution group explains to me that he felt some scepticism from his family regarding his financial work at the beginning, because of what he describes as a cultural opposition between "entrepreneurs" (his parents) and "financiers" (himself). However, he tells me that this scepticism disappeared after he participated to his first deal at Starlight Partners (the Avions aeronautical company) and he explained to them the growth plan that Starlight applied to Avions. After that, his parents realised (as he tells me) that he



was doing nothing but a specific form of “entrepreneuriat”, as his family had been doing for decades (“entrepreneur” having a clearly positive value in his discourse).

## **Section 2. Doing “good moves”: constructing oneself’s charisma through the navigation between the institutions of recruitment and internal promotion of the private equity sector**

### *The institutionalisation of the recruitment of the sector*

The trajectories leading to the private equity sector are extremely standardised ones. Contrary to other financial industries, the private equity sector does not recruit just after the business school graduation. It permanently relies on a small number of interns coming from Paris business schools, but it is generally admitted that these interns cannot be hired at the end of their internship, irrespective of the quality of their work. Except one associate at Starlight Partners, recently hired after his internship when I arrived in the fund (his recruitment was motivated by the fact that he had been working on a deal during his internship and that the fund needed him to continue to work on the same deal for a few months, as the deal was not over), all the fund members hired in the 2000s or later had the same trajectory: they graduated from a business school, then stayed two to four years in a suitable sector (M&A banks, consultancy firm, audit), then were recruited at Starlight Partners. Some individual cases even display complex exchanges between the fund and its recruitment pool: for instance, Paul, now an associate at Starlight Partners, began as an intern in the fund during 6 months a few years ago, then he had to leave the fund and became a consultant at McKinsey during 2 years and a half, and then he was hired again (as an associate) at Starlight Partners.

At Impact Equity, professional trajectories are more atypical and less institutionalised. Out of the 6 members of the fund, only two of them (partners) have a standard private equity curriculum. The four other fund managers have trajectories that do not match at all the practices of the rest of the sector. For instance, the investment director of Starlight has been recruited after a first professional experience, but this experience was in banking and had absolutely no relationship with the private equity sector and its traditional recruitment pools.

Similarly, Impact Equity's associate was recruited directly after her internship in an M&A bank, just after graduation. In these cases, Impact Equity was not able to attract profiles of young professionals having already done the standard two years in the recruitment pools of the private equity sector, the fund being still an experimental one and as such unable to compete with the remuneration and "track records" of standard funds. Reciprocally, the investment director and the associate of Impact Equity had found an entry point in the private equity world that would not have been accessible to them otherwise.

Thus, fund managers are recruited in specific recruitment pools (these pools being part of what Boussard (2018) calls the organisational field or "institutionalised ecosystem" of corporate finance). Interviewees generally identify three of these pools: M&A banks, strategy consultancy firms, audit firms. Marginally, some private equity managers also come from the leverage finance world (leverage finance bankers being in charge of providing bank debt to LBO operations). Interviewees evoke several reasons to explain the reasons behind these recruitment pools. First, some of them evoke a set of functional reasons. Because of their nature, these activities would train future fund managers to their job of financial investor. This is particularly the case regarding M&A banking, that many interviewees compare to a kind of training (one of them asserts that he did "his military service" in an M&A bank, where he "learnt to be rigorous" and to have extended working times). These sectors are also interpreted with respect to what interviewees think of their activity of fund manager. For instance, an interviewee used the recruitment pool of the private equity sector as a metaphor of the content of private equity work. According to him, the sector requires skills that are specific to M&A bankers (negotiation skills, knowledge of the corporate transaction process), auditors (analytical skills, knowledge of accounting and financial categories), and consultants ("strategic" vision of companies). Through its recruitment pool, the private equity sector would associate individuals with strong skills in some of these three areas, essential to the job

of financial investor (negotiation, numbers, strategy). This is detailed in the following interview extract:

Director: The gateways that allow people to be hired in the private equity sectors are either the M&A, or strategic consulting, or sometimes what we call transaction services, you know, audit firms, people who do *due dils* for us, all of these are potential gateways (...)

Q: Why?

Director: I don't know, it's like that... (...) Why are people recruited from these sectors? Because in order to be a good investor, you need a very large range of skills, you don't necessarily have it when you are 27, 28, 29 years old, even when you're 30 you don't have it, so when you're a fund and that you are recruiting, you think: okay, I will never find a 29-years-old guy who is able to do the whole range of tasks, obviously. However, if you think about the skills you need to be a good investor, you have to have a good strategic vision, good quantitative skills, a good experience of the process of the deal, of negotiation, how you have to position yourself in a competitive process, etc. All these skills, you begin to understand why I say that... If you hire a guy who has spent 4-5 years in strategy consulting because you need the strategy item, then he won't be able to do a deal, he won't be able to do models, but at least he will have that, this instinct of reflection on the value chain, market share, barriers to entry, etc. He will have that intuition. The guy that comes from transaction services, he will have no strategic reflection, etc. The guy who comes from an M&A bank, he will have a good vision of the deal, etc. In the end, when you recruit these people, you recruit them because they have a brick that they have developed during a few years and, even if they don't master it perfectly, at least they are on their way, and you bet on the fact that they will manage to learn the rest...

Another hypothesis regarding this recruitment pools, sometimes implicitly mentioned during interviews, relates to the relationships between private equity funds and the people that they recruit. Funds are supplied with new recruits by the sectors that are the most involved in advising them: during deals, funds systematically hire the services of M&A banks, audit and strategy consulting firms. Interviewees have frequently left their former employer following a collaboration with a fund on a specific deal, as numerous interviews show. A similar

phenomenon could be described regarding the recruitment pool of leveraged finance: some interviewees assert that after several years spent working in the leveraged finance sector, they “had worked with all the funds of Paris”, making their recruitment easy and natural.

Therefore, these very institutionalised recruitment pools could be explained by the social and professional proximity between the private equity sector and these service providers, resulting in permanent professional contacts between sectors with an abundant workforce and private equity funds looking for an already-screened skilled workforce.

Consequently, the workforce supply of the private equity sector is generally described as a form of institutionalised ecosystem between funds and their advisors. During interviews, I have never been told about any tension following the departure of an individual from his original employer to join a private equity fund. The three sectors that provide private equity with its workforce are organised around the “up or out” principle (according to interviewees but also academic studies, such as Boni-Le Goff 2012 and Boussard and Dujarier 2014): they consume a very abundant workforce of business school graduates, but offer very few opportunities at the top of the hierarchy. By recruiting people from these three sectors, private equity funds contribute to give opportunities to the employees of these companies: they make the recruitment in these kinds of organisations attractive for young graduates, as this recruitment can result in a job in the private equity sector a few years later. Some interviewees even underline how they were encouraged to leave their institution of origin to get hired in a fund. For instance, the following interviewee details how the strategy consultancy firm he was working at had sent him “on secondment” in an LBO fund during one year, before allowing him to be recruited at Starlight Partners:

Investment director: So, how did I end up working at Starlight Partners? When I was at Strategic Advisors [a strategic advisory firm] I did a – what people call “secondment” – so actually a kind of *externship*, so I was sent from Strategic Advisors during 8 months to the large cap deal team of Vendôme Capital. That was one of the reasons why I had

chosen to work at Strategic Advisors, there were a lot of opportunities there, in addition to missions, you have various opportunities, you could be sent to an office abroad, but for personal reasons I wasn't interested in that, or you could do an externship at Vendôme Capital, that was my objective. They allowed me to do that after two years at Strategic Advisors, I was very happy, I jumped on the opportunity, I went there because I knew it would enable me to strengthen my CV on the investment side, private equity, etc. So I went at Vendôme Capital during 8 months. And that's quite funny, that's a real coincidence, when I came back from Vendôme Capital, the Monday I came back to Strategic Advisors, I received a text message from Jean [an investment director at Starlight Partners] asking me: would you be interested in working at Starlight?

During these way-returns between private equity and its recruitment pools, individuals also accumulate a form of social capital specific to the corporate finance world, that benefits the consultancy firm they work at even when they leave it (as they are likely to order reports to their former employer once they have become fund managers).

The duration of the trajectories is strongly institutionalised as well. Since the 2000s (as previous trajectories appear to be more heterogeneous), except some rare cases, most of the recruitments have occurred 2 to 4 years after the graduation and the beginning of the first job. Before these two years of experience, financiers describe themselves as “too young”, not experienced enough for the “plug and play” culture of the private equity sector (as the sector “shouldn't be training” young graduates because it lacks time, as the CEO of Starlight partners asserts it in an interview). To the contrary, after four years of experience, fund managers describe recruits as “too expensive”, “too senior” to be recruited in the private equity sector. The gap between the remunerations in the early private equity career and the remuneration in previous jobs (in particular M&A banking, in which remunerations are strongly increasing at the beginning of the career) are said to be too large to enable recruits to leave their previous sector. As such, fund managers evoke retrospectively their shift to the private equity sector as a finely planified trajectory, during which they knew that a lag of two or three years could potentially prevent them from entering the private equity sector.

Director: So that was one of the gateways I had to enter the private equity sector, time was flying, I had spent 5 years in M&A, the problem of M&A is that you know how to do a lot of things and in the same time [you know] nothing, so if you spend too much time there, you miss the opportunity to do a new job, because you get old and...

Q: There are people who get stuck in the M&A sector?

Director: Yes, there are. And most of all, you're too expensive. In M&A banking you're very well paid. After just 5 years of experience in M&A, you have to accept a really big wage drop if you want to shift to another job. If I had done that 3 or 4 years later it wouldn't have been possible, you earn too much money, your financial effort is too big, even if you're very interested in the private equity profession, the financial effort is enormous. Then, you can compensate with carried-interest shares that you will maybe earn later, and if you do the calculation, maybe in the end it's worth it, but in the meantime, you don't have all that money at your disposal...

The institutional dimension of these professional trajectories is not acknowledged (it is even negated sometimes) by fund managers: they describe their shift to the private equity as a normal, natural evolution in their trajectory. However, many interviews also show the existence of specific guides in these trajectories. First, business schools enable future fund managers to discover the private equity sector, to learn to admire it, and to learn how to get hired by private equity funds – in particular through internships, courses taught by private equity fund managers, associations specialised in the training of young graduates to the financial world, mentors and coaches (for instance, one of the partners of Starlight was the “career godfather” of an intern of the fund, as part of an HEC association gathering current students and alumni). In addition, interviewees are also abundantly advised by “head hunters” (human resources consulting firms), as many were advised on the steps to follow to get recruited in the private equity sector until their final, effective recruitment.

Director: So, the advice that was given to me at that time was that private equity is a quite closed world, so...

Question: Who gave you this advice?

Director: It was a [head] hunter. A hunter who told me: it's a closed world and once you'll be part of it, you'll be an insider so you will know many things that happen in other

funds, eventual job openings, etc. But now you begin to get old and your opportunity window begins to fade, when you'll be 30 years old it's going to be difficult, you will have spent 5, 6, 7 years in [the] M&A [sector]...

Once they get integrated to the private equity sector, fund managers have a relatively straight trajectory. Departures from a fund to another one are rare: when they occur, they are frequently associated to negative professional issues. Most of the members of the “smid cap” deal team of Starlight Partners have changed employers during their trajectory: they evoke these changes as a difficult moment in their career and the result of the break-up of the funds in which they were working. Within my interviewees, fund changes are either associated to open conflicts (for most of them involving fund managers willing to become partners and unable to be accepted as a partner in their fund of origin), crises (such as the members of Starlight “Smid Cap” deal team, or a member of the main deal team of Starlight Partners who was working in a Lehman Brothers fund until 2008), and forced exits (two members of Starlight Partners have left the fund in the year following my observation, mostly because they were considered to be underperforming by the Starlight hierarchy).

Thus, in the same way as minority characteristics (for instance, being a female, not having graduated from a top school) involve a more difficult career progression and permanent efforts to compensate them, non-straight professional trajectories often have long lasting effects on the career of the observed fund managers. For instance, in Starlight Partners, the fund manager whose rank/age ratio is the lowest had precisely suffered from a particularly complicated trajectory, with several fund changes: after a graduation from a prestigious engineering school, he had spent 3 years at Goldman Sachs and joined a very prestigious private equity fund, but the Paris branch he joined was dysfunctional and he was not able to do any deal during his stay there, forcing him to leave and to join another less prestigious fund later on, before having to leave again as the partner who recruited him left to join Starlight Partners.



As a result, he had a very slow career progression: except for fund managers at the top of the hierarchy (who change funds to access the partner rank), fund changes are generally invoked to explain a slower progression compared to individuals who have stayed in the same fund all along their career. When they occur, these departures lead to professional ruptures that are described in a negative way, both at Impact Equity and Starlight Partners. To the contrary, interviewees describe positively the fact of staying in the same fund “during all its investment period”, that is to say 10 years. Furthermore, fund changes are also marginal strategies as they provoke financial issues given the structure of remuneration of fund managers: as the carried-interest is only paid after 10 years on the outcome of the whole investment period, fund managers have to find specific agreements with their previous funds and sometimes to consent financial sacrifices.

*The recruitment “process” and the staging of the individual value of fund managers.*

Even if the recruitment processes of private equity fund managers are extremely standardised, processes occur in a way that enable funds to build the exceptionality of new recruits. This exceptionality is staged by the nature and the extent of the means invested to recruit new fund managers. Most of my interviewees insist on the fact that they “were hunted” (by a head hunter), this “hunt” being clearly described as a source of pride. The “hunting” lexicon is even used in situations when there was actually no involved “head hunter” in the process, as in the following interview extract, in which the interviewee details how he was recruited thanks to his contacts within the Starlight Partners deal team:

Investment director: I received a text message from Jean asking me: would you be interested in working at Starlight Partners?

Question: Because he knew about your previous trajectory?

Investment director: Because he knew, actually Marcel was resigning from Starlight, so they were looking for someone, so they organised, let’s say, a very limited hunt, but they did not use any head hunter, they just called people that they knew and that could be interested...

The use of a specialised HR consultancy firm implies a significant financial expense, that varies depending on the profile. Furthermore, the development of the process also highlight the elite recruitment of funds. During this process, individuals are submitted to numerous “rounds” of recruitment. This gives legitimacy to the fund manager that is recruited as a result of the process, in the same way as competitive examinations of *grandes écoles* or as the competitive “recruitment rounds” of prestigious strategy consulting firms. Even if the length of the process does not mean that it will be more competitive (as an individual can be submitted to several rounds while being the only competitor), it gives it the appearance of a difficult and intense procedure, similar to a competitive examination, as in the following interview extract:

Question: You still did the whole process ...

Investment director (same as in the previous interview extract): I still did the process, I met all the members of the team, I met Olivier twice, I spent several hours and went several times to Starlight, the offices of Strategic Advisors [his previous employer] are just 5-10 minutes from here by walking so it's not complicated, I followed the normal process. And finally I was the happy one, they sent me an offer that I accepted with great pleasure.

Question: All right. And how did it go, you had interviews, hadn't you?

Investment director: Yes, actually Marc had launched a hunt for a junior, I was contacted by the head hunter, I had an interview with Marc, at that time there was also Antoine [a former partner], maybe you saw him... I had interviews with the two of them, I saw them two or three times and it went well, that's it...

Therefore, the arrival of a new individual in the fund involves a kind of welcoming rite that emphasises the significance of the recruitment, in particular through the use of a costly head hunter, the short-listing of several candidates, and the formal contacts with them through several “rounds” of interviews, each time with different audiences (frequently: the partner in

charge of the recruitment, then all the partners, then the whole team, each “round” having potentially the power to eliminate the candidate).

The “moves” of fund managers.

Fund managers frequently evoke their own trajectory towards the status of partner as a financial operation: they describe their career decisions as “moves” taking place after long “processes” and “negotiations”, that can result in more or less successful “deals”. In an interview extract (see below), a partner of Starlight explains how he shifted from fund X to Starlight and describes how this resulted from a proper negotiation, during which he “put more pressure”, “sent an ultimatum”, “bluffed” and compared career opportunities to make a rational choice. In this context, fund managers describe how they manage their institutional position as a capital. They describe explicitly how they compare the prestige, the brand of a fund and their own expected position within this fund before taking a position. To estimate the value of their “moves”, they take the opinion of their colleagues, but also of intermediaries specialised in the circulation of fund managers between funds (head hunters), that interpret their trajectories and advise them to make specific decisions:

Partner: [The head hunter] told me something. Either this fund, Lazard Capital [for confidentiality matters, this is an invented name], works well, and in this case you will have done a super *move*, you will have joined the private equity profession, in a team that works well, you will learn many things, all the reasons why you want to go in this sector. Or it doesn’t work, but at least you will be part of Lazard, so you won’t burn your business card, and you will be part of the circle, you will be identified as a private equity guy and you will be looking for a private equity position. And that changes everything. So I did the *move*.

Beyond that particular case, fund managers’ ability to consider their career as a deal, themselves as an asset and to adopt aggressive negotiation approaches in their own trajectory also depends on their location in the hierarchy of the fund. During interviews, most of

interviewees find a way to assert (as they perceive me as the envoy of Marc, the CEO of Starlight Partners) that they would not hesitate to leave the fund if their hierarchical progression would not match their expectations. However, in practice, only directors seem to be able to exert pressure on their fund in order to get a partner position and appropriate a share of the fund's profit, by threatening to leave and join another one, as they have been able to accumulate a social network and a track-record useful to their fund of origin.

In some cases, the career decisions of fund managers are actually proper "deals". For instance, the fund managers of Starlight Smid Cap have joined the fund following a real deal, involving the buyout of their portfolio and their deal team (partners excepted) by Starlight Partners, their integration into Starlight Partners and the promotion of a director of the targeted fund as a partner within Starlight Partners. This operation (a specific kind of "hold-up in finance", to use the formulation of Godechot 2008) has been narrated to me by Luc, the partner who presents himself as the originator of the operation (even if the nature of the operation varies depending on the narrator).

Partner: And I went to work at fund X as a partner, saying to myself, I did the right *move*, I had no chance to progress, now I'm going to stay at X, I was in this kind of mood. So I arrived at fund X, but here again, it's pure logic: when it's crisis time and you see a fund that recruits external people as partners, generally it means that something went wrong.

Q: Within fund X?

Partner: Yes, otherwise they would have taken someone from their own team. (...) So at fund X I had to rebuild everything, to change the investment process, I copied the structure of Vendôme Capital, I recruited people with good profiles, I recreated a whole team, with the help of other partners, they had recruited me to adapt their fund to the mid cap sector, that's what I did, with the support of the president of X, who was very happy. And we began to do deals, but here again, in 2010-2011 I did 2 deals, in 2012 I did 1 deal, in 2013 I did 3 deals. In the meantime, the four other partners had performed only one deal, actually a small one in 2011 and a bigger one in 2013. And both of these deals went very bad. So in 2013, during the summer 2013, I began to have discussions with the president of X, explaining to him that the team wasn't working well, that young recruits were very smart, directors as well, but that we couldn't go on like that with these partners,

given that I was doing all the deals, at some point you have to monitor too many companies... Because it's a team job, a collective job, for several reasons, you...

Q: Because you were monitoring all the deals you had performed?

Partner: Yes, because when you buy a company you talk to its top managers, they trust you, if you stop talking to them after the deal they are disturbed. So it's a collective job, you need several senior people in a fund to do things properly (...) So here, we needed another partner, and we needed to fire one of the current partners, we were talking about that, at the beginning the president quite agreed with me on the general idea, and then a deal by another partner, a young partner, began to turn badly, the partner had completely messed up, he had hidden all the stuff until the last minute, he arrived the 10 September at fund X telling us: actually, we can't pay wages at the end of the month, so... My relationships with the president got a little bit tense, I put more pressure, saying that we needed to recruit a new partner and to fire this one, I can't work in a partnership with him, I can't invest my own money trusting someone who lies, that's not possible. At that moment I got some contacts with people from Starlight, they were looking for a manager for a small fund in Paris. (...) I sent an ultimatum, the president became rude as well, he told me that he didn't care, he thought I was bluffing, so I left. I arrived at Starlight Partners, they had told me that they needed a second partner on the Smid Cap fund, that I would be the senior fund manager – there was already a partner at Starlight Smid Cap, but I was told I would be the senior partner. Once again, they had windowdressed everything, because when I arrived, on the 3 people that were in Smid Cap, 2 of them had resigned, and the third one, the partner, had been hired in 2011, he had failed 2 deals and had lost the confidence of the fund, of everybody, he wasn't doing anything anymore, he hadn't worked on any deal since 3 years, so we had no deal flow, no reputation on the market, no team. Actually, there was nothing (...) I arrived in 2014 and I decided to recruit, to build a team, a deal-flow, a portfolio. And good news: fund Z had troubles at that time, so I was able to acquire it, to acquire the team, the portfolio, we recruited other people, we did a few deals, we got involved in marketing to rebuild our brand on the market, and now it works, we spent 2 years to rebuild everything.

To describe with simple words the movements that the interviewee (Luc) describes, Luc was at the beginning in a fund X, that he left when other fund members refused to let him be a partner, in order to be appointed as a partner in fund Y. However, as the president of the fund Y refused to fire other partners that were “not doing [enough] deals” according to him, or even bad deals, that is to say facing the refusal of the president of the fund to give him (and

his recruits) a larger share of the profit of the rent, he left to manage a new fund (Starlight Smid Cap) as part of Starlight Partners. He left with several fund managers from fund Y, that followed him at Starlight Partners. Once at Starlight Partners, he managed to acquire the fund Z, with the support of some of the fund managers of Z (but not Z's partners), including a director of fund Z that received a partner status in exchange for his support. In doing so, he also conducted to the firing of the original partners of Starlight Smid Cap and of the partners of Z, that were not bought out with the rest of the fund.

This situation could be related to the “hold-up in finance” that Godechot (2008) describes. In his article, Godechot evokes how traders are able to appropriate a part of the profit of the banks they are working at by threatening to leave these banks with the capital that they have embodied (including social capital). When describing this “hold up”, Godechot emphasises how the situation of traders relies on the fact that some forms of capital are associated to individual workers and accumulated by them, instead of being accumulated by the bank itself: relationships with other traders are constructed as individual ones in trading desks and traders keep their network with them when they leave an organisation and join another one. Similarly, in his operation, Luc clearly describes how (according to him) he managed to embody the prestige of the deals he performed, in such a way that he was able to rebuild a new fund from nothing in each new organisation he arrived at, or that the organisations he left were not able anymore to perform deals after his departure (given that he left with a portion of their teams, of their networks, and his deal making prestige).

However, this “hold-up” process is also significantly different: contrary to traders, private equity fund managers are not dealing with overarching institutions but with institutions that they own themselves (as they are partners of their own funds), involving capital operations over competing funds (as in this example, in which Luc gets recruited at fund Y to buy out fund Z). As a result, profit is not shared between banks' shareholders and

traders, but between partners: to perform a “hold-up” in the private equity sector, individuals such as Luc have to negotiate in order to show that they own crucial forms of capital (social network, deal making prestige), but they also have to find ways to get rid of other partners in order to appropriate a broader share of the profit. In the case of the recruitment of Luc at fund Y and his buyout over fund Z, this situation is particularly clear: as he describes it later in his interview, a few months after his recruitment at fund Y, Luc managed to get rid of the other partner he was competing with at Y; when he bought out fund Z with the help of fund Y, he bought out the whole portfolio of the fund and a part of the team, but he did not recruit the partners of fund Z (although he promoted a director of fund Z at an intermediate rank between director and partner in the resulting organisation). As a consequence, he ended up being the sole partner of a set of private equity funds that were previously having three partners (excluding him): in doing so, he managed to appropriate a much broader part of the profit of the two funds.

Here again, the construction of individual careers as financial operations contributes to turn fund managers into capitalists. As they emphasise their ability to sell themselves as assets, to enter into a negotiation and to use the threat of a departure in order to obtain a more remunerated, more central position or a partner rent, fund managers do not consider themselves as mere workers but as the holders of a specific capital, constituted by a “track-record” (useful to asset management companies when they intend to raise funds), transactional skills accumulated through time, and a profitable social network. As they construct themselves as worthy assets, fund managers claim their legitimacy to be considered as capitalist and to appropriate the financial rent that results from this status.

### **Section 3. Private equity funds as the top of the symbolic hierarchy of capital and the plurality of orders of worth in the private equity profession**

#### **The construction of a symbolic hierarchy of capital favourable to private equity fund managers.**

Private equity fund managers also ground their superiority on the idea that their profession would be at the top of the symbolic hierarchy of capital (or at least the corporate finance world). During interviews, fund managers frequently assert their belief that working in a private equity fund is preferable (and generally preferred) to working in all the other professions of the corporate finance sector. For instance, an associate at Impact Equity explains to me that she intends to never go back to M&A banking and that she believes no one would deliberately choose to work in the M&A sector rather than in the private equity one. Another fund manager, also coming from M&A banking, asserts in an interview that “there are many people who do this job [M&A banker] and would would like to enter the private equity sector”, making explicit an opinion quite broadly shared by private equity fund managers.

According to interviewees, the superiority of private equity jobs relies on their specific positions at the top of the command chain of capital. The prestige of the profession results from the ability of fund managers to command other organisations, as interviewees emphasise the exceptional power given very quickly to quite young financiers (an associate in his late 20s claims that he is able to talk on an equal footing with CFOs from large companies), contrary to other corporate finance professions in which financiers are considered to be advisors dedicated to answering their clients’ needs (even if the private equity fund manager is technically also an advisor):

Associate: That’s a super rich interesting, super interesting job. Because you are at the top of the command chain and you decide of the whole thing, in the end you’re the client...



Investment director: The fact that we are clients of almost everyone, except investors.

Question: That is to say?

Investment director: We are in a position where everyone is accountable to us. And actually, that's a very comfortable position.

Q: That is to say?

Investment director: That is to say that we are the clients of M&A banks, clients of strategy consultants, we hire lawyers, so we are in a strength position, and people say that the customer is king, so... Except from investors, finally we are accountable to investors, but apart from that it's a job that is quite comfortable, in which we are not... I don't know, for instance I spent 3 years as a consultant, the logic is a very different one, you are a service provider, customers have the right to whip you if they want...

However, the symbolic hierarchy of capital as described by interviewees does not exactly replicate the chain of capital. In particular, professions located above private equity funds in this chain (such as the deputies of investors, i.e. managers from funds of funds) are said to be by far inferior and less interesting than the private equity profession. Even if the latter fund manager receives funds from these investors and that interviews reveal that fund managers are aware of their position as investment service providers to investors (these investors being their clients), private equity fund managers frequently display their contempt for fund of fund managers. During my interview with an associate at Impact Equity, I suggest for instance that after M&A banking and private equity, the next step that would appear as natural in her career would consist in going up in the chain of capital and entering into a fund of fund. She laughs, before explaining to me that she rather considers positions in funds of funds as fallback positions for “unfit [*ratés*]” people from the private equity sector. According to her, private equity jobs are interesting because of the contact with companies, corporate strategies and entrepreneurs – and managers in funds of funds have no contact with companies, even if they manage more capital. This widespread contempt is also described by the following interviewee (who has a personally more tempered position):

Director: I'd say that generally, people who work in deal teams think that they are superior to the rest of the world. They belong to that kind of people, well, that think these kinds of things. But are they really superior?

Question: And why do they think that?

Director: Because it's a job in which you exert more power than elsewhere. But you have a strong power on a very large number of people, whereas in a fund of funds you have an immense power on a very little number of people. That's very very particular, this job, when you're in a fund of funds, you have an enormous strength of decision, because your fund of funds has a power of life and death on investment teams. All right? Investment teams, generally, they hate people from funds of funds, they consider them as subhumans [*des sous-merdes*]. And to say the truth, some people from funds of funds also consider themselves as subhumans.

Question: Oh, they consider themselves as subhumans?

Director: No, but actually, in funds of funds you have... It's a bit complicated, how can I make it simple? You have two big categories of funds of funds, you have let's say private funds of funds, with an asset management structure that belongs more or less to the managers of the fund, and then you have very large funds for pensions, parapublic organisations, in France or abroad, that are far less financialised and have far lower remuneration policies. So these are two very different kinds of people, I think you have the large funds of funds, for instance CalPers<sup>17</sup>, these are funds where people are well paid but are not paid like us, these are not professions in which you have carried [carried-interest], things like that. But they have a tremendous decision power, they can say to you: hey, I'm going to put 400 millions or 500 millions in your fund. (...) And then, you have another category of people that have a carried, etc. they have a lot of power as well, but they often invest less important tickets.

Question: And this second category of managers is a bit more respected by people from private equity funds?

Director: They are a bit more respected because they have the same codes, they earn the same amounts of money or even more, so they are more honorable than the half-bureaucrat [*demi-fonctionnaire*] that has a tremendous power on someone who earns far more money than him...

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<sup>17</sup> CalPers is a pension fund that invests its assets in numerous private equity funds. Although it is not formally a fund of fund (as Axa IM is, for instance), it seems similar to my interviewee from his point of view of fundraiser.

Similarly, during an interview with one of the founders of Impact Equity, the interviewee explained that at the beginning of his career it would have probably been possible for him to go working in the large financial conglomerates existing at that time in France (like Paribas and Compagnie de Suez). However, when I asked him about why he finally decided to go work in private equity funds (at that emerging actors), he told me that jobs in these conglomerates were looking like “bureaucratic”, “banker” jobs and that he wanted to work in finance instead.

*The private equity orders of worth, between “entrepreneur”, “deal maker” and “asset manager”.*

Beyond the financial motive, the superiority of private equity positions lies in the “interest” that fund managers find in their work. Interviewees generally highlight three kinds of interests in their daily activity: its prestige, its contact with companies (what they call “*le terrain*”, the “field”) and the adrenaline of transactions. The following interview presents in a striking way these three orders of worth (in the sense of Boltanski and Thévenot 1991; Boltanski and Chiapello 1999; Stark 2011) in the fund management activity, sometimes conflicting with each other. Reflecting over his own career (the interviewee began working at a very large and prestigious fund in which he did no deal, then shifting to another smaller fund in which he did many deals and, according to him, developed a more “entrepreneurial” approach of the private equity profession), the interviewee develops these three orders of worth alternatively. In the extract, discourses related to the prestige associated to large funds and the size of the raised capital are highlighted in green; discourses related to the taste for deals and adrenaline are highlighted in red; discourses related to “entrepreneurship”, that is to say the concrete relationship with companies, entrepreneurs, growth strategies, are highlighted in yellow.

Question: So you work for Starlight Smid cap, right?

Investment director: Yes, I’m in the smid cap team. I work on SMBs with around 10 million euros of sales. During my first job at Vendôme Capital I was working on

companies that had sales around 5 to 10 billion euros and he had to invest tickets of 500 millions to 1 billions. To do that, you take people who come from Harvard Business School, Polytechnique, whatever you want, but in the end you realise that the job of these people consists in allocating a lot of money, without really understanding what the companies does, anyway that's not important because the company's management is here to care about that. I stayed 3 years at Vendôme capital, place Vendôme, and I did no deal, so it was quite boring...

(...)

Question: That was before Capdev Partenaires [the fund he joined after Vendôme Capital and before Starlight Partners] ?

Investment director: Yes, that was before Capdev. And before that, I worked at Goldman, 3 years, the standard trajectory for someone who wants to work at Vendôme. But after 3 years at Vendôme Capital, I realised that I wasn't doing what I wanted to do, so I left and went to work at Capdev Partenaires, that was a smid cap fund that I had never heard about before, but it had a quite clear promise, and this promise was: "I have a lot of money to deploy, 180 millions to deploy, so I am going to do 5 to 6 deals in the next 18 months, if you go with us you're going to do deals [*faire du deal*]". And I thought that I was going to learn my job of investor. That's what I did, and I met Luc there [now partner at Starlight Partners], I did 4 deals in 2 years. (...) So I learnt the job that [I do at Starlight Smid Cap] on large SMBs. And I think that I took the right decisions, because you see more things, more companies, if you're a little bit interested in entrepreneurship, you have to cope with entrepreneurs, the people you have in front of you are those who have switched on the electricity meter at the beginning, so these are real entrepreneurs, creators. You deal with companies that are not extremely well-off so you can really provide services to them. If tomorrow they want to do a build-up, they will call you and you will do the build-up with them. When I was at Vendôme, in the portfolio there was a company that was called Industria, in the financial department of Industria you have 40 employees, and there is a director for external growth, so you shake hands at the board, they say you 'hi, good', and they call you the day they have signed a deal. Whereas here [with small companies] you have to put your hands in all operations... (...) We receive 200 deals per year, whereas at Vendôme we were receiving only 5, 10 deals per year. You can't compare the two situations, it's really different, you're sinking under the number of opportunities. That's always the same thing: if you're a bit interested [in movies] and you have the opportunity to see 200 movies per year instead of 5, it's far better...

Question: All right. But isn't there an issue of prestige? Vendôme Capital was maybe more prestigious, but you ...

Investment director: A little bit. Well, it prevented me from sleeping during 15 days, because I had only been in very prestigious companies such as Goldman, Vendôme, I thought: ‘what the fuck am I going to do at Capdev Partenaires, with these unknown people [*ces petits niakoués*], in a fund that no one has ever heard about...’ I kept this bitter feeling during 3 months at Capdev and then I thought... I was enjoying it more and in the end, if you think about it, Vendôme, Capdev, BCG, these kinds of names, it only means something for a very small population of people who live in a 10 square-kilometers area in central Paris, the most important thing is what you do and if you’re interested in what you do... In addition, I also have to say that the potential of financial profit is very material in smid cap funds.

In this interview, that synthesises in only one interview extract very common kinds of discourses among private equity managers, the interviewee first highlights how as a matter of fact, there is a basic relationship between the amount of funds raised and the symbolic hierarchy of funds: the larger the fund (and the average investment), the most prestigious it is. This explains why the interviewee could not sleep “during 15 days” when he left one of the largest funds in the world specialised in large cap investments, Vendôme Capital, to join a very small French fund, Capdev Partenaires. This also explains why the interviewee draws an equivalency between a fund like Vendôme Capital and firms like Goldman Sachs or BCG, as these three firms all appear to be the most prestigious institutions in their fields (private equity, M&A banking and consulting). However, the interviewee emphasises the intrinsic interest that he finds in dealing with “companies” and “putting his hands” in operational issues. This claimed intellectual taste for entrepreneurship is frequent during interviews and acts as a rhetoric justification of fund management: in this perspective, fund managers would themselves be entrepreneurs, as they are close to the companies they own and are involved in their strategic decisions. Finally, financiers also emphasise their will to “do deals”. The transaction itself, with its adrenaline, its newness, is perceived as one of the subjective interests of the job of private equity investor. Transactions allow fund managers to exist: as they have performed such a transaction, they are appointed to the board of the company, their

name is published in specialised newspapers and seen by peers. The deal gives fund managers a status, the absence of deals being systematically evoked as a stalemate, a difficult situation that they have to go through.

As a result, this chapter has detailed the origins of private equity fund managers, the shape of their professional trajectories until the position of partner and the symbolic hierarchies of the sector, that features several (sometimes opposed) orders of worth: in doing so, it has highlighted the existence of more or less prestigious positions and how the struggle for capital in the daily professional life of fund managers is translated into a struggle for prestigious positions. In the following section, I am going to investigate the nature of this struggle for prestigious positions (and how it gets embodied into the appropriation of prestigious tasks and deals).

**Chapter 4. Distributing individual successes and failures  
within private equity funds: the distribution of prestigious  
tasks and the appropriation of good deals**

## **Section 1. The professional stratification of private equity funds, from mundane written jobs to prestigious relational tasks**

### *Mundane and prestigious<sup>18</sup> jobs in the private equity industry.*

The trajectory of fund managers within funds involves a progressive shift in the tasks performed on a daily basis, between two large sets of tasks: mundane ones, based on the writing of documents and models, and prestigious ones, that generally involve a relational dimension. At the time of their arrival in the fund, interns and associate are almost exclusively asked to perform repetitive and quantitative tasks, resulting in the accumulation of written documents, or administrative tasks for internal purposes. As such, they have no access to people out of the fund: during an interview, an intern complains about the fact that “[he has] seen no one during 6 months” except his Starlight Partners colleagues. At Starlight Partners, juniors also complain about the fact that their work primarily consists in “face time”, that is to say passive attendance time in the offices of the fund, in other words to stay in the office during extended timetables in case something happens and their help is needed. Thus, the time of these new recruits is considered as cheap, expandable and freely usable by more senior fund members.

Furthermore, juniors are asked to perform non-prestigious tasks involving the drafting and writing of documents. For instance, interns are very frequently asked to work on the writing of what they call “profiles”. These profiles have a key role in the mechanism of “deal flow” generation, despite being considered as a chore: interns are in charge of writing memos on companies that contact the fund while looking for capital or that fund members identify as

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<sup>18</sup> This distinction between “mundane” and “prestigious” jobs could be complemented with the conceptual distinction elaborated by Hughes (1962) between “good” and “dirty” work – the private equity work being organised around a distinction between prestigious (good) and less prestigious (dirty) tasks.



potential targets. Then, these profiles are integrated to the “deal flow” of the fund and examined by fund members, in order to determine whether the company could be an investment opportunity; then, they are stored in an internal database, in order to be updated and used again later. In addition, junior fund managers are asked to work on the spreadsheets that are used by other fund members to forecast the performance of deals (“models”). They support the work of fund managers with intermediary ranks (such as investment directors and directors), that are directly in charge of supervising and refining these models (partners read them very casually), as shown more precisely in part 3.

Finally, fund employees at the bottom of the hierarchy of the deal team or belonging to middle and back offices also perform administrative tasks. They do banking transfers, order bureaucratic documents about the companies owned by the fund at the trade court, fill “reporting” forms, perform one by one the successive steps of the “closing” of deals (gathering the supporting documentation to prepare a general assembly of the board, etc.), write “calls for capital” letters to activate the mechanisms of the asset management contract when the fund performs a deal. Beyond these administrative tasks, back office fund members and interns are also involved in service relationships: they call taxis, take appointments, elaborate the menus of the dinner that the fund orders each evening for fund members that stay late, manage the professional and personal plane tickets of other fund members. Similarly, juniors are frequently asked to perform an heterogeneous set of non-prestigious tasks, such as taking notes during a call with a consultant or browsing the website of a target to find information about its customers and commercial offers.

As they progress in the hierarchy of the fund, fund managers spend an increased portion of their time doing prestigious relational tasks. At some point in my observation, I am shown by an assistant the timetable of the partners they are in charge of: from 8am to 7pm, these time schedules are filled with meetings with other members of the fund and external

actors, be they M&A bankers, strategy consultants, top managers of portfolio or targeted companies, or corporate finance cocktails. Partners frequently develop overbooking practices by scheduling two or three meetings on the same slot and cancelling some of them at the last minute (most of the time, they cancel the least important ones – my interviews were very often cancelled a few hours before and rescheduled later).

Question: I understand the kind of work that associates, directors have to do, they write documents, presentations, things like that, but when you say ‘work’, what does it mean for a partner?

Partner: For a partner, it means animating your network, originating potential deals, constructing angles of attack with managers, constructing tactics that work to win deals, and it also means reading the maximum amount of [investment] memos, precisely, directing young people for models, for memo committees, for *due dils*, making sure that all the issues are taken into account. It’s a very large but very, very intense work.

As such, partners monopolise most of the encounters with company top managers and investors. In doing so, they stage their ability to “originate” operations or fundraisings by using the social capital they have accumulated through time because of their “experience” as director or their “charisma” – even if their social capital is also the product of a generational effect, as most of their peers from their business school period have the same age as them and also access superior hierarchical positions in their own organisations when they become partners. The accumulation of social capital involves the participation to socialite events, including cocktails, dinners or seminars organised by central corporate finance organisations. For instance, after my observation, I attend a seminar of the consultancy firm Cash Advisory, specialised on LBO customers, that gathers a significant portion of the profession: when I go there, I incidentally meet two partners from Starlight.

*Becoming a “partner”. Dexterity, charisma, domination.*

The superiority of individuals belonging to the top ranks of the fund is staged through their

technicity (or even their physical dexterity) in the modelling work. For the external observer, it is fascinating to watch senior fund managers (essentially directors, as partners do not work anymore on models) browsing or refining Excel models. They display an impressive agility in the way they circulate between numbers, opening and closing a column, a row, a part of the table, going from a cell to another one instantly, using only their keyboard, modifying a specific formula, then going back to the general table. Impressed by their dexterity, interns tell me that they would like to “learn how to use Excel without the mouse” by using shortcuts, in order to look like senior fund managers.

In addition, the superiority of partners is also staged through their alleged “charisma” in interpersonal relations. Most partners display a personal aura that they stage through intellectual attitudes. For instance, an Impact Equity partner often repeats, during the corporate seminar, interviews or some meeting, his personal theory of investment and finance (he defends a patrimonial vision of finance and a very cautious, contrarian approach of investment). In doing so, he reveals above all that he is important enough in the private equity sector to have his own theories. Another partner also develops, during a meeting at the end of my observation, his relationship to God and his “pascalian” (from French 17<sup>th</sup> century philosopher Pascal) vision of divinity. A third one emphasises his cultural tastes through the displaying of art works in his office (original film posters, contemporary sculptures).

Charisma also appears through specific attitudes during discussions. During meetings, partners implicitly emphasise their “vision”. For instance, in a working meeting, a partner at Impact Equity reprimands quite strongly an associate of the fund for not having seen how “extremely important” the decrease in a specific indicator was, while analysing a recent reporting document from a company the fund was targeting. In doing so, he signals his ability to detect things that a young associate would be unable to see. This charisma is also displayed through relational ease. At Starlight Partners, during lunches, partners sometimes (rarely, as

they generally have lunch outside with important people) go to the collective kitchen and eat with their teams. I attend one of these collective lunches with Marc, the CEO of the fund. When I arrive, he sits at the end of the table and appears to be the centre of all the attention. He monopolises the discussion with his anecdotes about other partners and important people in the private equity sector: he emphasises his smartness and eloquence with witty details and jokes. When he goes, the general discussion stops and people engage in smaller discussions, in groups of two or three. A young associate tells me, with an admiring face: “Marc is such an extraordinary guy!”

As part of this charisma, individuals also progress in the fund hierarchy by learning how to have an aesthetic relationship to companies and deals. During my first fieldwork, at Impact Equity, I was impressed by the vocabulary of one of the partners of the fund, who had a long career in the LBO private equity sector before. When talking about companies and deals, he was constantly using an intellectual vocabulary, that actually reflected his own relationship to his work and more broadly the way partners envision their activity. Talking about a decision to take, he was not talking about the “best” or “most optimal” decision, but about the “most intelligent [*la plus intelligente*]” one. Talking about companies, he was judging them with aesthetic categories: Tacos, for instance, was a “beautiful company [*une belle boîte*]” – instead of a “good” or “profitable” one. This was not an isolated case and I heard very frequently partners talking about “nice” or “cute” companies, boasting about the “beautiful deal [*un beau deal*]” they had just managed to close. This is for instance visible in the following interview extract:

Investment director: The business I’m talking about is a quite simple one, it’s a market when they produce air filters, you see... I think it’s a quite seducing business [*un business assez séduisant*].

This vocabulary does not only conceal the interested aspect of private equity fund management (as deals are called “beautiful” because they are actually profitable), but also displays some detachment, as if fund managers were enjoying their deals *per se*. What is at stake here is the learning of what is beyond the vocabulary: learning to “enjoy” (in an aesthetical way) a business plan means to have preferences, tastes, to be able to elaborate a beauty judgement on some companies, some businesses, some sectors. As such, fund managers have to learn how to enjoy aesthetically deals (and to talk about them in an aesthetic way) in a very Beckerian (Becker 1963) way, in order to display their charisma and their detachment.

Finally, the progression of fund managers also involves the learning of domination. Even if there are different grades of domination, all the fund managers with a superior rank (partners, some directors) display a fearsome character (this is particularly true at Starlight Partners, as Impact Equity fund managers intend to deliberately develop the fund as a “democratic” one and to avoid the “brutal” (as one of Impact Equity partners calls it) dimension of relationships in traditional funds). This domination appears through hostile or even violent attitudes towards fund managers with a lower hierarchical rank or people out of the fund: partners and directors frequently demonstrate their power by showing how they can be impolite or how they can impose their wills out of any balanced relationship between individuals.

For instance, I observe a particularly violent scene at Starlight Partners, during which a partner spends a dozen minutes arguing with one of his subordinates through the glass that separates their two offices, a Friday afternoon after a sleepless night on Thursday spent working, going as far as to insult him while the subordinate was desperately trying to find a document the partner was asking him for (“You do nothing [*tu ne fous rien*]! What are we paying you for?”). Another partner displays overtly hostile attitudes towards his subordinates.

He does not hesitate to be impolite and openly contemptuous with other fund members, for instance by reprimanding interns on their appearance or being ruthless with the work of associates, as I am told that on a morning he evaluated the work of an associate as being merely “bad”, whereas the associate had spent the night doing it. As an external observer, I have to cope with this attitude: as I bump into him in the stair at the beginning of my observation, I salute him and begin to talk about having an interview with me. He stops a moment in the stair, frowns and then continues walking without even bothering to answer me. Later in the observation, as I ask him again for an interview, he asks me to be “around” the following day between 3pm and 7pm. I stay close to his office that day during that range of time, showing myself ostentatiously to remind him of the interview. At 7:30pm, as I see him leaving his office, I go to see him to talk about the interview: “I’m in a hurry”, he answers laconically without any excuse (this is a current practice for partners: another partner gives me a meeting one day “either at 9am or at 7pm”, misses both of these appointments but tells me that he might be available the next day at 11am; a bit *blasé*, I only go to Starlight Partners at 1pm the following day, but he reproaches me for having “stood him up” immediately as I enter the fund). Later on, during the unrecorded 30-minute interview that I manage to get from him, a worker who is repairing the roof of the building knocks to the window, probably to be able to enter the building – even if it was not clear, he was possibly judging it safer or simpler to go through the interior of the building rather than through the roof. After ignoring him, the partner opens the window and treats him so bad (asking him with hostility: “what are you doing here?”, as if he were seeking to spy on him or to enter illegally into the building) that the worker ends up retreating before having the opportunity to explain his request: he apologises and disappears on the roof while the partner closes the window with an angry face.

These are only representative anecdotes of the “brutality” (as a former partner of Vendôme Capital now working at Impact Equity described it) of the relationships in standard

private equity funds, the atmosphere of Starlight Partners being deemed to be particularly brutal, as in most large LBO funds. The learning of domination is structural: it could also be observed at lower levels of the hierarchy, through dominating attitudes towards advisors, back-office members or daily life interactions. For instance, an intern reports to me that the LeCab (a French taxi system) driver that takes him home in the evening talks to him “as if he were traumatised” of the brutality and lack of respect that an associate of the fund expresses when he drives her. Similarly, as I have an interview with another associate of Starlight Partners in a *café*, I am stricken by the incredibly contemptuous tone and attitude the associate displays towards the waiters.

## **Section 2. The liberal profession mythology, the claim of being incentivised to performance, and the appropriation of deals**

### *Fund managers as incentivised to the performance of their deals.*

Interviewees frequently assert that their career is linked to the performance of the deals that they perform. For instance, one of the partners of Starlight describes his career only through the number of deals he performed and the success of these deals. He asserts that his quick hierarchical progression at the beginning of his career, turning him into a director before 35, was allowed by the high number of deals he performed at that time:

Question: And how did you manage to get appointed as a partner? How did it go?

Partner: These trajectories are never linear ones. It's the kind of jobs in which you have successes, you have failures, so you go up and down, it's very rarely a continuous trajectory, so if you take the history of the successive funds of Starlight, funds I, II, III, IV, etc. During the fund I, I worked on plenty of deals that have been super *successful*, I was the *star*, so: bing! I went up very quickly. Fund II, I did no deal. I went down. They told me...

Q: No deal during 10 years?

Partner: It doesn't last for 10 years, no, no, the investment period of a fund is 3-4 years.

So I had performed 5 operations on fund I, then during 3, 4 years, I worked on opportunities but it didn't go well. So inevitably, your profile loses a lot of its value.

That's why I decided to go to the UK. At Starlight UK. I spent 3 years at Starlight UK as a director, and I did 3 deals there. (...) Two years and a half, three deals. So, bing: up. My profile went up. But at that time, financial crisis. The three deals I had done appeared to be, hmm...

Q: Disastrous?

Partner: One of them was located in France, we lost a lot of money, another one in Germany, well, we'll earn a little bit of money but not a lot. And the third one, we still have the company in our portfolio, I don't really know. These deals turned up to be quite mediocre, so, pfft, you go down again...

Q: But it was the same for everyone, wasn't it?

Partner: Yes, but some of them were a bit better. I was a bit below the average. So you go down a bit. But then, during the last 5 years, I only had good deals.



Deals are associated to fund managers through numerous channels. When fund managers perform a deal, they are associated to it for a long time because they are generally put in charge of “monitoring” the portfolio company after the closure of the deal. Fund managers explain this phenomenon of appropriation of the deal by the fact that there should be a continuity in the interpersonal relationships between fund managers and the top management of the portfolio company. For instance, in an interview, a partner worried about the fact that he was the only partners to perform deals during two years in his fund. This situation was problematic, as it involved that he had to monitor the four portfolio companies he had contributed to acquire, resulting in an excessive workload for him compared to other partners who had not performed any deal and had therefore no portfolio company to follow. But despite this workload disbalance, he explained that he did not consider the idea of distributing the portfolio monitoring among all the partners of the fund – he rather considered the idea of excluding other partners.

Portfolio monitoring is also symbolically staged through the appointment of fund managers in charge of a deal to the “board” of the portfolio company. This appointment has numerous consequences: the name of fund managers is automatically associated to the portfolio companies they monitor (in the online biographies of financiers, board appointments are always mentioned); a mere Google search quickly associates fund managers with the companies they monitor; fund managers have to attend the board meetings and to travel to the offices of the company during “annual reviews”. Beyond board appointments, numerous other institutions are involved in the association of fund managers to specific deals, such as specialised newspapers. In the *place de Paris*, specialised newspapers are essentially composed of a magazine (*Capital Finance*, held by the financial newspaper *Les Echos*) and a website (CF News). These newspapers publish articles on most of the M&A deals above a

minimum size, in particular those that involve corporate finance actors (M&A banks or private equity funds).

As such, deals are described as the primary source of legitimacy in the professional career of fund managers. Interviewees very often develop their vision of the sector as driven by a “deal first” logic, in which a fund manager should privilege the deal before all other thing and in which the deal is the ultimate criterion of evaluation for individual trajectories. They emphasise the opposition between “deals” and “labour”: a fund manager who would work a lot but who would not manage to perform deals (or would only perform bad deals) would have a lower value in the private equity sector than a fund manager who would manage to perform good deals while being lazy (even if interviewees acknowledge that this form of evaluation is unjust).

The importance of the deal is part of a broader legitimization discourse for finance. Quite often, it appears to be more a symbolic claim than an empirical observation. Indeed, interviewees often contradict themselves when they claim that deals were significant for their professional trajectory: despite these claims, the observation of their career often reveals that their hierarchical progression continues despite the absence of deals or bad deals. In addition, from a theoretical point of view, the quality of deals often results in a symbolic marking. Interviews evidence numerous contradictions between the way deals are said to influence professional trajectories and hierarchical progressions occurring despite bad deals. This phenomenon is particularly noticeable in the case of the previous interviewee (see above), that described his career as driven by the quality of his deals – but in the same time had a very regular hierarchical progression, apparently independent from his deals:

Q: But during the fund I, in 3-5 years, you went up from associate to director?

Partner: Actually, I was an associate on fund I, investment director on fund II, director on fund III, partner since then.

Q: So you went up between fund II and fund III [while he did no deal]?

Partner: Yes yes yes, I went up, and that's thanks to Charles [Starlight's president], I owe him a lot, because he was confident in my potential, he told me at that time: get appointed as a director and go to London, you'll feel better. So I got appointed and I went to London, where I did 3 deals.

Therefore, fund managers boast about being evaluated on their financial performance (this financial performance being an implicit indicator of their social usefulness) in order to show how hard the world in which they evolve is (in this perspective, the private equity sector would be a kind of unjust jungle exclusively based on performance) and to legitimate their position (their past career and their remuneration would be based on the fact that they have a specific skill, the skill of performing good deals).

#### *The liberal profession mythology.*

This rhetoric of incentivisation is strengthened by the use of the symbols of the liberal profession: fund managers insist on the fact that while investing their funds, they invest their own money. Indeed, as fund managers progress in their career, they go from the status of wage-earner to the status of partner, i.e. shareholder of the asset management company. The fact that senior fund managers are “partners” of the companies they own, and not only workers, is abundantly emphasised by interviewees and by a set of symbols. Private equity funds present themselves as “partnerships” in an explicit way, through their brands (private equity funds frequently include “partners” or “partenaires” or “associés” in their name). Furthermore, funds develop an internal organisation that underlines this partnership nature: power is not centralised as it is in the companies they own, it is exerted collectively by all the partners of the fund, resulting in ceaseless power conflicts, but contributing to distinguish partners from mere workers that would have to obey their manager.

When they enter a fund, recruits receive a small incentive to the financial performance of the fund through the carried-interest mechanism – and this incentive grows as fund managers progress in their career. At the time of their entry in a new fund (different from their

recruitment in an asset management company: when Starlight Partners raises a new fund, the fund managers of the company enter the new fund), a ceremony takes place to stage the financial contribution of fund managers to the new fund. New funds gather investors, that are called “limited partners” (LPs) and that bring most of the invested capital, several billion euros in the case of Starlight Partners. However, incentivised fund managers also have to contribute to the fundraising (in the case of Starlight Partners, deal teams invest a few million euros in each fund), in order to make the asset management contract effective – as such, they are called “general partners” (GPs). As a result of this ceremony, fund managers also consider themselves as investors and are able to pretend that they invest their own money (that they “have their skin in the game”, as an interviewee puts it) in their deals. The distribution of the carried-interest itself is submitted to constraining conditions, that distinguish it clearly from wages: it is only paid at the liquidation of the fund (a wage-earner cannot live on the carried-interest as it is paid 10 years after the beginning of the work), it depends on the overall performance of the fund, and it is commonly presented as the counterpart of the initial investment of the fund manager.

The financial incentive of fund managers and their ability to own the asset management company increases progressively all along the career. In funds like Impact Equity and Starlight Partners, fund managers are remunerated through four main mechanisms: the fixed wage, the bonus (variable remuneration depending on the personal involvement of the fund manager), the carried-interest (variable remuneration depending on the performance of the fund, considered as a “capital income”), the fees (variable remuneration depending on the amount of the fundraising). The distribution of each of these elements changes depending on the asset management company and the rank of the fund managers: at Impact Equity, for instance, only partners are incentivised through carried-interest and fees, implying that other fund members will receive a relatively higher fixed income. At Starlight Partners, all the deal

team members receive carried-interest, but based on diverse criteria: the most senior members receive a higher share of carried. Furthermore, only partners receive money from fees, and the most senior of them receive a higher proportion of the fees.

### The appropriation of deals.

To introduce the way deals are appropriated by fund managers, it is useful to observe the example of an article following the buyout by a consortium of international private equity funds of a large company (the engineering French company Spie) previously held by the French fund PAI Partners, as described by the *Capital Finance* newspaper<sup>19</sup>:

Spie leaves PAI Partners' portfolio in a €2.1bn buyout

Published on 06/06/11 at 10:00

Last week, PAI Partners has done a breakthrough in the sale of its 87% stake in Spie, that it bought to the UK firm Amec in 2006 for €1bn (cf. issue n°800). It has entered into exclusive negotiation with Clayton Dubilier & Rice (CD & R) and Axa PE, that offer €2.1bn for the climate engineering company. (...)

Clayton Dubilier & Rice : Christian Rochat, Eric Rouzier - Axa PE : Dominique Gaillard, Alexandre Motte - CDPQ : Justin Méthot – Investors' advisors : financial : Lazard (Pierre Tattevin, Bertrand Moulet), Morgan Stanley (Jean-Baptiste Charlet, Arnaud Bouyer), HSBC (Gilles Colombin, Emilie Bauvillard) ; due diligences : financial : EY TS (Nicolas Winkler, Paul Gerber), tax : EY Société d'Avocats (Frédéric Laureau), strategic : Bain & Cie (Jérôme Brunet, Arnaud Leroi) ; legal : Clifford Chance (corporate : Gilles Lebreton, Alexandre Lagarrigue, financement : Laetitia Costa), Frieh Bouhenic & Associés (Michel Frieh), financing : Debevoise & Plimpton (Alan Davies) – Sellers' advisors: financial : Deutsche Bank (Emmanuel Hasbanian), SG CIB (François Vigne), BNP Paribas (Thierry Dormeuil) ; VDD [Vendor Due Diligence] : financial : PwC TS (David Willems, Ghislaine Chevalier), tax : Landwell (Xavier Etienne, Arielle Ohayon), pensions : PwC Transactions (Hélène Farouz, Mai Tam-Gounon), strategic : BCG ; legal : corporate : Willkie Farr & Gallagher (Daniel Payan, Cédric Hajage), financing : Allen & Overy

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<sup>19</sup> Joel Podolny already noticed how the private equity world announces deals and how these announces mention the people allegedly involved in the dealss, using the study of a sample of deal announcements to write one of his articles (Podolny 2001).

(Robin Harvey) – Managers’ advisors: financial : Hawkpoint (Nadim Barouki, Pierre-Arnaud de la Charrière) ; legal : Scotto & Associés (Lionel Scotto, Nicolas Ménard-Durand) – Senior debt : Morgan Stanley (Jim Yu), SG CIB (Patrick Sandray), HSBC (Florent Cassabois), Deutsche Bank, CA CIB ; legal advisor : Latham & Watkins (Ross Anderson, Michel Houdayer)

There is no grey highlight in the original article, I have added it in order to make it readable to the lay reader. The first white section relates to the people involved in the deal from the buying organisations. Then, in the first white section, the article details all the numerous advisors involved with the buying organisations for this particular deal. Then, in the second white section, all the advisors involved with the selling organisations for this deal. Then, the second grey section details all the advisors involved with the managers of the company (that have to negotiate their “management package”). Then, the third white section details the lenders that supported the deal and their advisors.

As the fact of being credited for deals (being considered as a “deal maker”) is described as crucial in the trajectories of fund managers, a central question in understanding these trajectories lies in how individuals are credited (or not credited) for the deals they are involved in. For instance, in the previous case, *Capital Finance* details both the organisation and the specific actors that should be (according to the habits of corporate finance) credited for the deal within these organisations. In doing so, it certainly omits people that corporate finance actors would consider not to be important enough in order to be credited for the operation, such as back-office and middle-office staff, or front-office staff that is not yet senior enough to be considered as “deal making” staff. In the case of Clayton Dubilier & Rice, only two fund managers are mentioned: both of them are partners. It suggests that all the other employees of the fund, including directors, associates, analysts, and all other staffs (and subcontractors other than the mentioned “advisors”), are not credited as proper authors of the deal. (However, the selection process is not the result of journalists but of financial actors

themselves. In the previous example, *Capital Finance* only spreads information that was communicated to it by fund managers involved in the transaction: it reveals how financial actors themselves select who should be, and should not be, credit for such a private equity deal.)

The habit of only crediting partners for deals is particularly striking in the case of Financia. I have been able to observe a part of the Financia process, all along my observation at Starlight Partners. This process involved many people within the fund, including two partners of Starlight Partners, but also one director, one investment director, one associate, two interns, the secretary of each of these people, and several middle-office employees. However, reports on the Financia deal a few months later in *Capital Finance* only mentioned the two partners involved in the deal, excluding all the other fund members. Actors are credited differently for the deal depending mostly on their hierarchical status and their resulting ability to present themselves as “deal making” people (this complements nicely the article by Boussard et al 2017: beyond the networks that they revealed, these reports on corporate finance deals also reveal who is labelled as a deal making person within an organisation and who is not).

As opposed to these practices of appropriation of good deals, when a deal is considered as bad<sup>20</sup>, fund managers frequently try to detach themselves from it. A failed deal

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<sup>20</sup> The way deals are considered as “good” or “bad” ones results from construction and labelling processes. Indeed, deals have no intrinsic quality out of what is said of them in fund managers’ discourses: bad deals are deals that are *considered* as bad ones. However, the role of labelling in the identification of “bad deals” is not as clear as in the case of deviance (evoked by Goffman 1959 and Becker 1963 to build the interactionist labelling theory): judgements over deals are grounded on the quantitative performance of deals, that is constructed all along the deal process by fund managers, as evoked in part 3.

is frequently a motivation to dispossess the fund manager from the monitoring of the portfolio company he participated to acquire, or even from his fund managing position. It is also described as a potential motivation for the breakup of a fund. Bad deals stick to the reputation of financiers and cause them personal disorders. At Starlight Partners, following a failed deal in the sushi sector, a fund manager of the deal team in charge of the deal tells me without any irony that since he has performed this deal, “he has not eaten sushi anymore”. Another one tells me that when the sushi company began to have financial issues, he began to have insomnia.

Even if fund managers try to differentiate themselves from failed deals, the private equity sector seems to distinguish between the fact of being at the origin of a deal and the fact of being appointed later to try to save an already failed deal. Fund managers often evoke the portfolio companies that they have “recorded as losses [*paumes*]” in the books of the fund. Each year, private equity funds evaluate the value of their portfolio companies as part of their reporting to investor: during this evaluation, they can consider that the value of a company resulting from a failed deal is null. Such a pessimistic evaluation then allows fund managers to “remedy” an unextricable situation. In this context, the performance of the fund manager is evaluated on the basis of the pessimistic evaluation of the value of the firm (that can be exaggerately pessimistic, to emphasise the role of the new manager replacing the wrongful one). As an instance of that, a fund managers explains to me that he had left the fund in which he was working (Vendôme Capital) just before the financial crisis, because he disagreed with the investment policy of the fund that he judged to be too aggressive on some deals. After the crisis, as the deals performed pre-crisis were going wrong, he was integrated back into Vendôme Capital at a higher rank in order to take care of these distressed companies (replacing those who had performed these deals, who were excluded from the sector or lost their dominant hierarchical position). Similarly, during the merger between funds X, Y and



Starlight Partners (see next section), most of the partners responsible for the previous bad deals were fired. The monitoring of the resulting distressed companies was allocated to other fund members, at least for companies that were judged to be potentially viable – the firing of the partners responsible for bad deals allowing the new fund managers to receive symbolic prestige in case the portfolio company would recover, without having to suffer from the past failure of the deal. (Some other companies were seen as too distressed to be saved: members of the fund judged that it was uninteresting or even negative for their career, to spend time on these failed companies, and preferred to delegate their monitoring to members of the middle-office.)

### **Section 3. When things go wrong: conflicts for the partner position and the periodic purification of “bad” fund managers**

#### *Conflicts for profit within private equity funds.*

In the context of the struggle for the status of capitalist, partner positions and for the financial rent associated to them, interviews abundantly describe conflicts between fund managers, resulting sometimes in the exclusion of some of them. Indeed, the very high remunerations at the top of the private equity hierarchy are made possible by practices of under-recruitment in the deal team. This phenomenon is striking in the cases of partners, whose remuneration are particularly high because these positions are very rare, far more than director positions despite the fact that partners stay longer at their rank than directors. This constructed scarcity of the number of available financial rents provokes conflictual situations within funds, as managers try to appropriate these positions.

Conflicts appear particularly in the cases of partner nominations. Within Starlight Partners, the recent nomination of a new partner that was recruited from another private equity fund (in which he was only a director) provokes an internal scandal: other fund managers see it as an obstacle to their own promotion as partners and a bad signal regarding how their skills are acknowledged within the fund. These conflicts also appear when funds become unable to grow anymore, that is to say to compensate their unbalanced hierarchical pyramid with a general increase in the number of available positions. In the following interview extract (same interview as the long extract of chapter 3, section 2), the interviewee describes such a conflictual situation, resulting from the crisis and a generational issue in the fund he was working at:

Question: You were still working at Vendôme Capital when it was the crisis?

Luc, partner: Yes. I only worked during crisis time. And in the PE industry, when you talk about crisis you talk about several things. First, there is no more room for fundraising, so funds have stopped to grow for long periods of time, and if you stop

growing, as it's a quite young profession and there are no 65-years-old partners, so there are no natural departures. Therefore, the model is: you have old partners that stay in the funds, and they make young people work, from times to times they give them a prestigious title, director, etc. but actually they don't give them any veto power, they don't give them appropriate *economics* [high remunerations], real responsibilities, they remain purely operational people. That's what happened on the market at that time. And that's exactly what happened at Vendôme Capital, I stayed 6-7 years there, and there was a huge turn-over there, so I was clearly one of the most senior non-partners, we were two senior non-partners, and I did almost all the deals of Vendôme Capital between 2006 and 2010. I did 8 of them, if I remember well, I was involved in 8 deals, in the period they probably did 10 deals overall so I did most of them, and I was more and more senior and autonomous in the execution of the deal: in the end, I was originating, executing, the partner was coming to some meetings and then... But they let me understand that there was no possible evolution.

Q: But how could they think that this was not going to be an issue?

Partner: We had arguments about that, there was a fundraising session between 2008 and 2010, of course during the fundraising they promised me many things and when the fundraising was over they told to me: actually, it's a no. So I called 3-4 specialised hunters and I told them, I am ready to go, at that time I was around 35 years-old, I told them: I am a senior director, there is no evolution perspective where I am, I want to move but I will move only if I get a partner position. As I had done a lot of deals, I ended up having offers, I received 2 or 3 of them. I accepted the third one.

This conflict also has a generational dimension, as seen for instance in the previous interview extract: junior fund managers blame senior ones for resting on them while benefiting from an established capital income. In this paradoxical situation, the professional culture of private equity (that exalts hard work and extended working schedules) is used by rising fund managers against partners at the top of the hierarchy to make them fired, as part of a broader generational struggle. Such partners are sometimes effectively fired, as interviews show. In other cases, to justify their position, senior partners frequently move towards less time-consuming tasks such as investor relations. That is not the case at Starlight Partners, in which investor relations are located in London and are implicitly restricted to English fund managers, explaining why old fund managers can be found in the London branch but not in

the Paris one (the monopoly of London over investor relations irritates the French deal team, as it also involves a monopoly of London over fundraising and finally explains their inability to get rid of English partners).

Partner: Actually when I look at our age pyramid here at Starlight... Except London because it's an English company so they protect themselves between each other... If you look at all foreigners, without any exception, there are no old partners. Except Charles [the president of the fund] that has played his game well, but he's the only one.

Q: It means that London fires partners...

Partner: Yeah. It's a company with a lot of internal politics, internal diplomacy, so as soon as someone doesn't please anymore he gets fired for reasons... Independent from his performance... And anyway that's an English company so it's like that, it's their DNA, as soon as they think that someone is less performant, they get rid of them.

This situation of conflict emerges most of the time around particular cases of partners that are not involved in enough deals or that perform failed deals. In these cases, interviewees justify the firing of a partner by the fact that they were not able to be trusted anymore by their teams, and in particular other partners, due to the failed deals they are said to be responsible for (however, interviewees have never evoked any situation in which they were excluded from a fund because of the failed deals that they performed themselves):

Investment director: [Mutualising the carried-interest between all the deal teams of the fund is an issue] because when you have a German partner that doesn't care, that explodes everyone's carried... I have lived that situation at fund X, in which we had a mutualised carried, and when you have a guy [he hits the table with his fist] that becomes suddenly mad and destroys the performance of the fund, it becomes like civil war. It's a civil war, it's...

Q: And how did it go?

Investment director: At fund X, we had a 350 million fund. 350 millions, with an average IRR, it means 70 million of carried to share between fund managers. It's not bad. So we had significant bonuses, even I had significant bonuses despite my humble position.

Q: How many of you were working at fund X?

Investment director: 10. And we had 5 partners, 3 old partners and 2 young partners, including Luc among the young partners. But the other young partner, not Luc but the other one, he had not accepted the arrival of Luc in the fund, that was a kind of family fund. He thought: this guy is going to replace me, I am the spiritual son of the president, actually it was like a Game of Thrones scenario... So he thought that he had to do deals, he absolutely wanted to do a deal. And the president of fund X, who was his spiritual father, told to him: let's go, you can do it. So the guy completely failed a deal, he performed a deal that was called Startupia, you've probably never heard of it, and he windowdressed the numbers, when it was grey he was saying it was white, when it was black he was saying it was grey... In the end, he had built a bomb. And at some point the bomb exploded.

Q: You mean, he did a very bad deal?

Investment director: Very bad, I mean: very bad. Very bad. We realised it two years later, at some point the CFO called us and told us that there was no more cash to pay the wages<sup>21</sup>. (...) So, at that point, you understand that the carried is dead, because it has been mutualised, and at that point the fund is dead because partners only want to kill each other. Luc left the fund and the fund is almost dead now, Luc was a driving force for the fund, now they don't manage to raise money anymore.

### *The periodic cleansing of partners in the private equity sector.*

The previous story (that relates the same events as in the long interview of chapter 3, section 2) is an emblematic example of the periodic purification of the private equity sector. In the three funds that have been involved in the operation, Luc asks for the firing of other partners and obtains it for some of them, on the ground that they perform an insufficient number of deals and that their deals are bad ones. To improve the share of the profit of the asset management company allocated to him and to his recruits, he has to eliminate other partners or to sell his ability to perform deals and his track-record to other funds. In this fashion, crises and what are considered to be "bad deals" allow funds to get purged from a part of their managers, in particular from their partners. Such an argument could seem to be consistent

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<sup>21</sup> This anecdote is also mentioned by the interviewee of chapter 3, section 2.

with the neoclassical view of Michael Jensen on private equity: such purges could mean the elimination of the least efficient financiers by the financial market. However, this theory is based on the idea that there would be a real “productiveness” to fund managers that could be estimated rigorously through quantitative data. In this dissertation, I rather argue that the elimination of fund managers essentially results from a power struggle, in which the ability to negotiate (and to leave the fund with a part of the deal team) plays a role, as does so the ability to assert in a convincing way its superior legitimacy to manage capital.

Indeed, the construction of trajectories of partners-capitalists relies on the ability of fund managers to define failed partners, responsible for failed deals (or deals constructed as failed ones), and to eliminate them. Actual trajectories are often less clear than what discourses reveal: for instance, in the interview extract of section 2 (see above), the partner reveals that a third of his deals were failures, in particular the deals he performed during the crisis period. Similarly, in the “hold-up” case, Luc talks a lot about the number of his deals, but omits to talk about the outcome of these deals (some of them actually turned to be failures). The success of Luc in his hold-up and in the elimination of competing partners seems to result strongly in his ability to *present* himself successfully as a “deal maker”, able to manage capital in an efficient way, insisting on the number of “his” deals and the fact that other partners’ deals were failures.

Reciprocally, the elimination of partners requires to make them responsible for actual failures or to construct their deals as failures, with an often striking scapegoat dimension. In this perspective, the construction of good and bad deals is intrinsically linked to the construction of good and bad fund managers, which in turn lies on the struggle for partner positions and the need to eliminate competing partners. In the following interview extract, Luc talks about one of the partners he managed to get fired during his career. A few minutes ago in the interview, he had emphasised how (once again) he was the only deal-making

partner in the fund and how this justified the elimination of the other partner. However, in the following extract, he explicits one of the reasons why the other partner was unable to perform deals – he had been implicitly blacklisted by the investment committee in London, that had lost its “trust” in him due to allegedly failed deals in the past:

Partner (about another partner he managed to get fired): He wasn't working anymore, actually I think he was spending most of his time in his garden. He was arriving late, coming home early, he was scared of London, scared of investment committees, scared of everything, so he was useless. When we were looking at deals, he was absolutely useless. (...) Anyway, when you fail deals, when you really, really fail something, you have to go. It's far easier to go and to reconstruct your image elsewhere than in a company where people don't trust you anymore, don't listen to you. (...) And he had completely lost the trust, completely. Once, I remember that an investment committee member in London told me: 'if your team submits a deal opportunity that is not supported by yourself [the interviewee], that is supported by him [the failed partner], I would reject the opportunity as a matter of principle'. When things look like that, you just have to go.

Therefore, making a partner responsible for failed deals, labelling him as bad and firing him as a result could be understood as a way to promote other partners by contrast (whose responsibility is not engaged in “failed” deals) while eliminating a competitor in the sharing of profit.

## Conclusion

As I have detailed it, private equity fund managers follow very specific professional norms. In the *illusio* (Bourdieu 1994) of private equity, fund managers have to access a partner position, this position involving a hierarchical domination over other fund managers, but also a financial rent (this status enables partners to earn sums of money that are incommensurable with the amount of work they perform, even if they continue to work during extended schedules) and a symbolic freedom (as partners are theoretically owners of the asset management company – even if this partnership relationship is above all useful to serve symbolic purposes). In order to follow this goal, fund managers engage in a struggle for capital and positions within the fund. This struggle is a symbolic one (despite its economic consequences on incomes): fund managers are evaluated on their ability to display legitimate symbols, be they symbols of *grandes écoles*, prestigious consultancy firms, or allegedly “successful” deals. As a result, a large part of the activity of fund managers consists in trying to associate themselves to good symbols, good companies and good deals (without entering now into the detail of how these good symbols are constructed, as this will be evoked more in depth in part 3), and to distinguish themselves from other, less prestigious symbols, in a context where the norms of symbolic appropriation of deals and positions are socially regulated by the norms of the sector.



**Part 3. Constructing oneself and the world as  
legitimate investment objects, through  
routines and bureaucratic processes**

## Introduction

During an interview, Marc, the CEO of Starlight Partners, spontaneously protests against a proverb that some of Starlight's fund managers recently used in front of him: "better lucky than smart". Indeed, this proverb assumes that financial work is useless, as the performance of a deal is determined by the external market, by factors that rely more on chance than on the work of investors. According to Marc, financial work is put into question by such a proverb, as is more generally the social usefulness of finance – if investments succeed more because of luck than because of work and smartness, what is the use of the financial sector? During the interview, Marc does not designate directly the people that use this proverb within the fund, but he uses very strong words to express how he disapproves them. He accuses people who spread this idea (or "*mindset*" as he talks about it) to be responsible for demoralising young recruits and weakening the whole private equity sector. Beyond Marc's anger, fund managers that I observed seemed to be constantly replying to the assumptions behind this proverb, through the staging of an intense and stressful work.

In this part, I aim to study how the concrete construction of financial decision can be understood at the light of financiers' need for legitimacy. Fund managers pretend to cope with a strong uncertainty regarding the outcome of their actions: they are asked to produce investment decisions that condition their ability to accumulate capital, both from a personal (as fund managers) and collective (as asset management companies) point of view. Therefore, fund managers are in an anguishing situation in a Weberian sense (Weber 2002 [1905]): their social and financial success in the private equity world depends on their ability to make good deals, whereas they pretend that they have no control over the outcome of these deals. However, it appears clearly that out of some specific periods during which the norms of fund managers do not work anymore (as Ortiz 2014c shows it, financiers use the "crisis" concept to designate these periods), the quality of a deal is not entirely uncertain. Indeed, the private

equity sector has developed norms that enable it to reduce this uncertainty or at least to give to financial actors the feeling that they are able to interpret their own activity and to believe in the ability of their work to influence the quality of deals. Therefore, the quality of investment decisions is not given: it is constructed through a set of social processes to which fund managers participate. Despite the vision expressed by interviewees, in which the market would allocate a performance to an investment once the investment has been performed (the market as an instance of “veridiction”: Foucault 2004), investment decisions are progressively built as good, efficient decisions through definite processes.

This part shows that these processes are symbolic, rather than economic ones. The construction of financial decisions involves a set of processes that are not functionally necessary from an economic point of view but that are in the same time hugely elaborate, time-consuming and crucial processes, as they are used to express a pervasive concern for legitimacy. In this perspective, financial decisions should be understood at the light of the symbols that compose it. When fund managers prepare financial decisions, economic activities are objectivised, translated into financial language, formatted in a way that makes their future expected performance explicit (in a process similar to what Caliskan and Callon (2009, 2010) call “economisation”): these are symbolic operations necessary to the legitimization of investment decisions as efficient operations. All along this process of reformulation and formatting, investment decisions accumulate symbols of legitimacy: they are examined by instances, are subject to contradictory debates, receive the anointing of internal and external institution. As such, in this part I underline how financiers’ justification practices get materialised in the everyday practice of private equity finance, sometimes in contradictory ways. In order to produce “performing” financial decisions, financiers use a set of rituals and symbols: financial decisions have to pass successfully through these rituals, to be associated to these symbols, in order to be deemed successful. The study of these rituals

and symbols (in a Goffmanian approach, namely developed by Preda 2017) highlights how the need to legitimise financial decisions is translated into the daily work of private equity fund managers.

In particular, this part aims to describe the specifically bureaucratic nature of symbolic legitimisation operations that fund managers perform when they elaborate a financial operation. This observation is not unprecedented, as many economic sociology authors have already emphasised the bureaucratic dimension of finance (such as Clark and Thrift 2005; Riles 2010; Ortiz 2014c) and of the contemporary neoliberal world (Power 1999; Hibou 2015; Nyberg 2017). For instance, in the case of Starlight Partners and Impact Equity, the succession of “papers” and “committees” is used by financiers to demonstrate the large amount of information embodied by the final investment decision (by emphasising publicly the large amount of work necessary to elaborate it). Similarly, the fact that the final investment decision has passed several adversarial procedures, reputed to be tough and stressful, contributes to construct its “efficiency” (in the same way as going through reputedly tough stress tests constructs the financial stability of a bank: Coombs and Morris 2017). As such, the broad concepts of neoclassical economics in which the representations of financiers are grounded (“value creation”, “efficient allocation of capital”, “alignment of interests”) get embodied into successive bureaucratic procedures (“papers”, “committees”, “audits”, regulatory and legal processes). Financiers accumulate legitimacy to manage capital by passing through these bureaucratic steps, as these steps materialise the compliance of investment decisions with what they are supposed to be according to the norms of the sector. However, in this part, I also show how this bureaucratic construction is often contested: financial actors attempt to use it to their own benefit in the organisation (as in Ortiz 2014c), to interpret it in various ways, or to contest it through moral controversies using moral arguments from neoclassical economics.

In order to defend this argument, I intend to show how financial decisions result from the legitimization work of financiers. This symbolic work has to be considered in two main ways. Indeed, in the contemporary “chains of capital” (Arjaliès et al 2017), financial actors are in the same time objects and subjects of investment. A fund such as Starlight Partners has to invest in companies, but in the same time it has to raise the money it invests, that is to say to build itself as an object of investment for external investors (illustrating the self-referential dimension of finance evoked by Ho 2009; Boussard 2015), located in other segments of the chain of capital. Therefore, I intend to understand how financial decisions result from both the construction of itself as an object of investment by financial actors (the fundraising process, chapter 6) and the construction of the decision by the investor (the investment process, chapter 5).

## **Chapter 5. Making deals: accumulating the bureaucratic labels of the performing investment**

## **Section 1. The ritual trajectory of the deal, from “opportunities” to the closing**

In this section, I intend to highlight the successive steps that are involved in the construction of financial investments by private equity funds, by showing how these steps can be understood as social rituals through which financiers progressively turn “opportunities” into investments.

### *The “deal flow” ritual: turning information into “investment opportunities”.*

To begin with, the emergence of “investment opportunities” is constructed by the daily work of financiers. The definition of a given company as an “investment opportunity” results from several material and symbolical processes within investment funds. In the case of Impact Equity, such a transformational process is performed through a succession of bureaucratic procedures within the asset management company, that begins at the time of the reception of an “investment proposal”. Such “proposals” are constantly sent to the fund (constituting a part of what Impact Equity members call the “deal flow”) in the form of PDF documents of around ten pages, including the main characteristics of the company seeking funding and its funding needs. When such a document is received on the mailbox of the fund, Alice (an intern at Impact Equity) registers the “opportunity” in an internal database (similar to an Excel file) that records all the previous “investment opportunities” and sends a collective email to all the members of the fund. In doing so, Alice fills numerous boxes related to the “opportunity”: the “name” of the company, its “description”, but also a box called “financial criteria”, another box called “non-financial criteria” (meaning the “impact” social criteria, in the particular case of Impact Equity) and her “opinion” after this initial selection phase. She categorises (using more or less pre-defined categories to perform a “market work”: Karpik 2010; Cochoy and Dubuisson-Quellier 2013) potentially targeted companies depending on these criteria, thus delineating companies that will be not be investigated further by Impact Equity members and companies that will be considered as potentially viable targets (that is to say investible by a

fund like Impact Equity, i.e. an impact investing fund). In particular, Alice's work consists in checking whether the company's proposal matches the "mandate" of the fund regarding "financial" and "non-financial" criteria. Regarding the financial criterion, she verifies that the company matches the size criterion of the fund (sales should be higher than €5m and lower than €50m) and that the company is already profitable. Regarding the "non-financial" criterion, Alice can categorise each company in several groups: "None" when she sees no impact at all in it (she then recommends not to examine the investment case of the company), "Potential impact" when she is unsure about the categorisation of the company, or the corresponding impact criterion when such an impact criterion is clearly visible (for instance, "Impact through gender diversity" when the company meets the "gender diversity" criterion of the fund). In case the company does not match these criteria, she either proposes to reject the opportunity or to include it (when relevant) in the future "deal flow" of the venture capital fund that the asset management company was raising at the time of my observation.

A similar transformation process of information into "investment opportunities" was occurring at Starlight Partners, although through slightly different procedures. Starlight Partners was investing far larger companies than Impact Equity, with different sourcing methods. Even if it also received unsolicited "investment proposals", a large part of its "investment opportunities" came from the private interpersonal networks of its partners, or from market analyses by external consultants. Once a senior fund manager at Starlight has received some information that he judges to be promising for a future investment, he communicates it to the relevant person in the team (this person varies depending on the deal team), most of the time by email. The junior then produces a "profile" (due to the repetitiveness of the task, juniors ironically call themselves "senior profilers") of the firm, finding its key statistics and a potential investment "rationale", and adds it to the internal



database of Starlight Partners through Starlight's specialised internal software, making it an "investment opportunity" potentially accessible to all the Starlight branches.

A large part of the work of financiers is dedicated to looking for "investment opportunities" and "potential targets". This permanent work sets the pace of the life of the fund, even during deal periods. Indeed, once a week, all the members of the deal teams (except the interns of the LBO team of Starlight Partners, because of previous leaks) participate to a meeting ("deal flow meeting" at Impact Equity, "origination meeting" at Starlight Partners). Deal flow meetings occur each Monday morning at Impact Equity, each Friday morning at Starlight Partners (the LBO and small/mid-cap deal teams have separate but simultaneous deal flow meetings at Starlight). I attended around 12 meetings dedicated to "deal flow" when working at Impact Equity, but only 1 at Starlight Partners (because of the leaks). During these meetings, financiers evoke general elements regarding the life of the fund and its environment (for instance, during the deal flow meeting that I attended at Starlight Partners, fund managers began with the legislative project of French state budget and the increased taxation of carried-interest that it included) before talking properly about the "deal flow". When doing so, they evoke the new "opportunities" received during the former week (after the previous deal flow meeting) and the recent evolutions of the previous opportunities already discussed, including advanced deal processes. Chaired by a partner of the fund, the deal flow meeting is organised as a roundtable in which each member of the fund is supposed to give his opinion on the "investment opportunities" and the evolution of the "process" he has been working on, although the most senior (or ambitious) fund members tend to express themselves relatively more than the rest of the audience.

At the beginning of the deal flow meeting, one of the fund members distributes to all the other a printed Excel document (prepared by Impact Equity's intern or by Starlight's middle-office team), detailing the "investment opportunities" that the fund is currently

studying. The chairman of the meeting then reviews successively each of the rows of the table. As shown below (example from Impact Equity's deal flow meetings), financiers identify a small set of information that enables them to express an opinion on the company, or at least to remember the most significant elements related to this "investment opportunity". First, the Excel file mentions the name of the company, its sector, its main "metrics" (annual sales, EBITDA, eventually an approximated valuation), some arguments justifying the fact that the transaction could be part of the fund's investment criteria (both financial and "social" for Impact Equity, purely financial for Starlight Partners), the advancement of the "process" (preliminary phase, prospective phase, negotiations, etc.). The document also mentions internal elements (showing how "investment opportunities" are socially marked by financiers): it details the source of the "opportunity" (M&A banker, direct contacts with financiers, etc.) and the name of the fund managers that have been allocated to working on the "process", once the first meeting have occurred and the fund becomes to get involved in the negotiation.

Each case is studied collectively: some financiers express a point of view on the firm (senior financiers talk more than junior ones), then decisions are taken. In the case of Impact Equity's "deal flow" meetings, Alice's first judgement is discussed all along the meeting. In these discussions, the labelling of companies in two groups ("potential targets" and other companies) is grounded on existing categories to which Impact Equity managers are constantly referring: the "investment criteria". These "criteria" are constituted by a set of conditions, established in the internal documentation of the fund and partly included in the "mandate" of the asset management company (that links it with its investors), that determine in which businesses the company is able to invest. In the case of Impact Equity, both of the fund's criteria ("financial" and "non-financial criteria") need to be fulfilled to allow an investment to take place. In order that the "financial criterion" be fulfilled, a company has to

enter (after Alice's categorisation and the "deal flow meeting") within the "start-up" (non-profitable but growing companies) or within the "growth" (profitable and growing companies) categories. In the same way, to meet Impact Equity's "non-financial criterion", the company has to enter within one of the three categories through which Impact Equity, depending on its "investment criteria", defines "social impact". In some cases, members of the fund (and in particular, partners) decide to "go beyond" on an investment opportunity that the fund has received by meeting the managers of the firm, or even by exchanging information with the firm and triggering a due diligence process. In most of the cases though, fund members decide to decline the investment opportunity: they designate one of them to send an email to the manager or his M&A banker, in order to let them know about the rejection.

*"Proprietary deal flow" and the symbolical hierarchies within investment opportunities.*

Investment opportunities generally refer to the short documents that the fund receives from different sources, with a more or less standardised formatting. In most of the cases (even though these are not the most interesting opportunities for fund managers), these investment opportunities are part of what financiers call in French *"deal flow de place"* (in the sense: "Paris place", a place being a local market): the asset management company receives these documents by email, from an M&A bank that has been hired by the shareholders or managers of a company to sell it (be it a large M&A bank or a small "boutique"). Financiers know that these intermediated investment opportunities are likely to have been sent to several of their competitors (in the case of the Tacos deal, the M&A bank in charge of the operation sent it to around 50 Paris-based private equity funds). This investment case can be sent to the "contact" email address mentioned on the website of the funds, or more frequently directly sent to a partner (that is known directly or indirectly by the M&A banker) on his professional email address. The investment opportunity documents present the company on sale (sometimes using a pseudonym) and detail its key statistics.

However, “investment opportunities” can also be provided directly to investment funds without the intermediation of M&A banks. This is what financiers call the “proprietary deal flow” (in French: “*deal flow propriétaire*”), that is to say the portion of “deal flow” that (for a large set of reasons) is not sent to the whole Paris market and remains confidential. These proprietary investment opportunities are less numerous than standard opportunities but are far more interesting for fund managers as the competition is lower for the buyout and profits are potentially higher. I was able to observe two cases of “proprietary deal flow”. The first one happened during my observation at Impact Equity. One of the partners of the fund, François, an HEC alumni (a French business school), was in touch with an HEC friend who was also the CFO of a family office responsible for allocating the capital of Jean de la Rouquères, a wealthy French man operating in the luxury sector (Rouquères Group, approximately €500m under management). This family office invested five years ago in a Mexican food start-up (called Tacos), in particular due to the taste of Jean de la Rouquères for Mexican gastronomy and his friendship with Tacos’ manager. At the time of my observation, Tacos had opened several restaurants and had become a profitable small business valued around €10m. However, in the meantime, Rouquères Group had supported it through two capital increases, leading the family office to invest around €6m in the company for around 55% of the company’s shares: the growth of Tacos, poorly managed or even hasty according to François, led the company to “burn its cash” (and Jean de la Rouquères’ cash). As fund managers explained me to summarise the situation of Tacos, during five years the company had been considered as what fund managers call the “danseuse” (a sexist expression with a sexual connotation, as *danseuse* is the female name for “dancer” in French) of Jean de la Rouquères – meaning he accepted to finance the company at a loss because of his personal taste for it.

Busy with more important matters at the time of my observation, Jean de la Rouquères was no more interested in the company and did not want to spend money in it anymore. As such, Rouquères Group's CFO (who seemed to have his own financial agenda and to be willing to resist his boss' whims in order to invest his wealth according to exclusively financial motivations) saw an opportunity to "clean up" Rouquère's portfolio by focusing on stakes in the luxury sector and removing minor, non-profitable stakes such as Tacos. When he talked about this situation to François, François immediately perceived Tacos as a potential target and asked for its registration as an "investment opportunity". This "proprietary" opportunity was seen as a boon for Impact Equity members, as they hoped to realise the transaction swiftly, with no external competition, at a relatively low price (at a valuation of €6m whereas they estimate the company could be worth €8m to €10m). That would have enabled them to invest €2m in the expansion of the company while realising an almost certain profit at the time of the resale. On his side, Rouquères Group's CFO was apparently keen to be useful to his classmate, happy not to have to go through the standard M&A market and its costly intermediation procedures, and thought that Impact Equity was a handy investor, as it enabled him to satisfy Tacos' managers (they were relieved to be bought out by a "social" investment fund rather than a competitor or a standard private equity fund) – and therefore to satisfy Jean de la Rouquères, who was still a personal friend of Tacos' CEO.

Later during the process, I had the opportunity to see the "proprietary deal" being transformed into a "deal de place". Tacos' managers, exasperated by the excessive time taken by Impact Equity and Rouquères Group to negotiate the transaction, suddenly decided to hire an M&A bank themselves to accelerate the transaction. They selected a "boutique" bank composed of former Rothschild M&A bankers, that sent investment proposals to around 50 competitors of Impact Equity and triggered a particularly gloomy afternoon in Impact Equity's office, as François mourned the decision of Tacos' managers and noted with lucidity:

“well, it’s over.” The transformation of this deal into a “deal de place” provoked the entry of two other funds in the bidding process, with bids at €9m, making it impossible for Rouquères Group’s CFO to justify anymore a sale at €6m to Impact Equity. (As a result of this competition process, the company was finally bought out by a competitor from the food industry at a high price a few months after the end of my observation, with the support of another private equity fund, leading Tacos managers to leave the company in the afterwards.)

I was able to observe another of these “proprietary deal flow” opportunities at Starlight Partners. The Financia company, specialised in mortgage repurchase, had been owned for two years by a consortium of investment funds and credit institutions: the managers of Financia, willing to increase their own stake and to finance the development of the company, established discrete contacts with Marc, the CEO of Starlight Partners. The managers of the company were in an uncomfortable situation, as they were not able to reveal openly that they were willing to participate to a buyout of their own firm without disobeying to their current shareholders: this is why they did not send the investment case publicly to all the Paris investment funds. Therefore, the “proprietary” dimension of the deal was based on its confidential aspect. Starlight Partners had to go on its own to see Financia’s shareholders in order to negotiate on its behalf (and unofficially on the behalf of Financia’s managers) the buyout of the firm, that was finally made public a few days after the end of my observation.

### ***Managing the deal flow: Impact Equity's corporate seminar***

The “deal flow” is carefully managed by fund managers. Here again, I was able to observe that phenomenon more in depth in the case of Impact Equity than in Starlight Partners’ one. Indeed, during my observation, Impact Equity was organising its team seminar, with namely one session entitled “Amplify and qualify the deal flow”. The objective for Impact Equity was to increase the “volume” of deal flow and its “quality”, i.e. increase the proportion of opportunities that meet the specific investment criteria of the fund. As part of the preparation of this session, fund members were asked to elaborate statistics on the past investment offers they received since the creation of the fund, using the successive Excel files produced for the weekly “deal flow meetings”. For each year, they calculate the overall amount of investment opportunities they received, and among them the proportion of opportunities received through intermediaries (most of them M&A bankers), through direct contacts with managers, or through other sources (such as co-investments with other funds, opportunities found in newspapers, etc.). With the first and the second of these sources both around 50% of the deal flow, Impact Equity’s deal flow was looking like a typical start-up/small cap fund, that is to say a fund operating on an M&A market relatively poorly intermediated, regarding to other segments of the M&A market (such as the large companies that Starlight Partners buys, that use intermediaries for their M&A operations almost all the time).

In order to improve the situation of their deal flow, Impact Equity members imagined several strategies using intermediaries and their own personal networks, depending on their own intuitions and their past experiences. For instance, during the team seminar, Impact Equity’s president (that was used to media and public communication) put the emphasis on increasing the presence of the fund in newspapers, radio media, and entrepreneurs’ associations (such as the “Entreprendre!” or the “Free entrepreneurs” networks), in order to generate investment opportunities. As a consequence, he ordered members of the “deal flow”

working group to perform a comparative study of the communication strategies of Impact Equity's direct competitors, and another study of the effect of the current communication strategy of the fund on its recent deal flow.

Another Impact Equity partner, Jean (coming from the LBO industry and renowned in the private equity world for his somewhat "contrarian" and anti-Parisian vision of the investor's job), promotes stronger direct links with entrepreneurs. In his point of view, the fund will manage to find the most "qualified" and "proprietary" deal flow by going to meet entrepreneurs in forgotten places, such as the French countryside. As such, he decides to spend a part of his time in small French cities, such as Lyon, Clermont-Ferrand or in the South-West of France. The idea that he develops is the following: according to him, companies need capital only during a very short time, when they prepare themselves for an investment. In order to get non-intermediated opportunities, the only solution is to have and maintain trust relationships with entrepreneurs (or what he calls "countryside" bankers, i.e. local bankers) before they are looking for capital, in such a way that they naturally ask the fund when they think about new investments. Therefore, Jean advocates for the organisation of meetings, in small cities, with owners of companies, factories or with local bankers.

Finally, the third partner François, also coming from the LBO industry, rather seems to trust the intermediation of M&A bankers. He proposes to create stronger links between the fund and M&A advisors, by having a friendlier policy in their respect. For instance, when the fund examines investment opportunities, he advocates for sending personalised replies to all M&A intermediaries, in order to encourage them to send other opportunities later on. Sometimes, when an opportunity is not relevant for the fund but that the intermediary is defined as a "strategic" one (because it intermediates deals that could be relevant to the fund), François asserts it is necessary to ask for a "pitch" about the opportunity (despite not being



interested in it), in order to give the feeling to the intermediary that Impact Equity cares about them and their clients.

### The “pitch” ceremony and its symbolical meanings.

The “pitch” is an essential ritual in the emerging relationship between an investment fund and the managers (or owners) of a company. It is the beginning step of the investment process, in which the “entrepreneurs” (be they the executive managers or the shareholders willing to sell their company) present to the fund the main characteristics of their company, the evolution of its main indicators and the “rationale” behind the financial operation they are proposing (the reasons why the fund should invest). The pitch is a systematic step in the investment, except in rare circumstances (as in the Financia case, for instance, where the managers or the group did not “pitch” properly their company as they were looking to buy their own company with the help of the fund; instead, they had an informal lunch with Starlight partners). The “pitch” is a formal encounter between productive capital (represented by the manager) and circulating capital (represented by the financier). For each “investment opportunity”, a few fund members are in charge of organising the meeting with the company managers. The decision of asking managers to “pitch” is taken during the “deal flow” meeting, when financiers decide that an “investment opportunity” seems to them interesting enough to spend time on it. This interest is multidimensional: financiers can find it financially interesting to launch negotiations, of course, but financiers can also be interested in being courteous with the entrepreneur or the M&A banker that sent the investment opportunity, or in using the “pitch” ceremony as a way to extract information from the entrepreneur about the sector, even when they have no intention to invest in the company (the entrepreneur being unwittingly used as a free consultant by the fund).

Then, informal discussions take place with the management team of the company to organise a successful meeting, that is to say a “balanced” meeting, in which the status of the managers of the company attending the meeting is matched by the status of financiers welcoming them. The balance is also a matter of arithmetic: before the “pitch” ceremony,

fund members very often worry about the number of financiers welcoming the managers of a company. They try to establish a balance between the number of financiers and the number of managers in the room, for instance by inviting fellow financiers (or myself) to the “pitch” at the last minute in response to an unexpected change in the composition of the management team attending it. In doing so, they implicitly convey a message: whereas being far less numerous than the management team would look like a mark of disinterest, being far more numerous would explicit too much the domination relationship between the company and the fund. Managers generally arrive at the pitch in teams of two to three people, including the CEO of the firm, his CFO and, when the deal is intermediated, the M&A banker that advises the firm for the transaction. The fund tries to send a similar number of people with similar ranks – sending at least a partner or a director to match with the senior executive. Despite this search of “balance”, these meetings systematically occur within the building of the fund (this is why the architecture of the fund includes so many meeting rooms, as seen in part 1: two floors out of five are dedicated to meeting rooms in Starlight Partners’ buildings; a third of the rooms for Impact Equity).

The ceremony of the “pitch” involves more than a mere investment decision from the fund: it also affects the perception of the fund by the managers of the company. When they evoke particular “pitches”, financiers frequently evoke the need to establish a “good feeling” with the managers they meet, namely by demonstrating their “business sense” and their knowledge of the sector to which the company belongs. During one of the pitches that I observe (in the room: the CEO of the firm, his M&A banker, a partner of Impact Equity, an investment director and I), the partner organises the preliminary discussions in such a way that he is the last one to present himself. Then, he details swiftly his very prestigious CV: a former member of the executive committee of Vendôme Capital, he did the deals X (a major hotel company) and Y (a well-known industrial business), and now works as a partner at

Impact Equity. In front of him, the entrepreneur raises his eyebrows and whispers: “oh, fine...”, showing that he acknowledges the quality of the background of the fund manager in front of him.

Similarly, pitches enable fund members to get information about the company that is pitching, but also about its “business model” and its competitors. During the previously evoked pitch, even though he has decided before the meeting that Impact Equity would probably not invest in the company because of its non-profitable aspect (as Impact Equity only invests in already profitable companies), the partner asks edgy questions, such as:

What is the main source of value in crowd lending? (...) Isn’t there an issue with the analysis of the numerous funding requests you receive? (...) You have a very low value added for each case because of the low volumes of funding you allocate: how to solve this problem in a smart way?

The manager of the firm replies by presenting the main issues of the crowd lending business model, the various ways his competitors address them, and the way his own solution (using big data to analyse the investment cases in an automatized way) distinguishes his company from competitors. Through these questions, the partner evidences his good knowledge of the sector, that is to say his ability to contradict the positive rhetoric of the manager and to ask him tough questions – thus impressing the manager. In the same time, he asks the manager to detail him the way he sees the future of the sector of crowd lending: in doing so, he gets the point of view of a practitioner on the future evolution of the sector, therefore increasing his general knowledge of businesses and common ideas about businesses, that could be useful in further meetings with entrepreneurs or colleagues.

*From the “investment opportunity” to the “deal”: signing and closing a deal.*

After the negotiation period, the “investment opportunity” is progressively turned into a proper “deal” (and the “target” into a proper “portfolio company”) by the “signing” and the

“closing” rituals. At the time of the “signing”, the fund is already into exclusive negotiation with the firm or has just won the auction to buy the firm: during a meeting, the partners and lawyers of the fund, on the one side, and the top managers and owners of the firm, on the other side, sign a set of contracts related to the transaction (including the price of the transaction, the perimeter, the conditions of the transaction). After the signing, that generally occurs late in the evening, members of the deal team that have participated to the deal are invited to luxury restaurants or clubs, where they eat expensive dishes and drink alcohol together.

The “deal” is not properly finished at the time of the closing. The period between the “signing” and the “closing” is a bureaucratic, but extremely important period. Indeed, to be valid, the “deal” has to undergo a process of formatting between its signing and its conclusion – a legal, financial, accounting, mediatic formatting. However, this bureaucratic formatting is not leaved to the attention of the middle office of the fund. To the contrary, the implementation of the flows of money (through banking transfers) between the fund and the firm, between the investors and the fund, the audit reports, the legal procedures, are an important part of the activity of Starlight Partners’ managers. For instance, one of the investment directors of Starlight Partners evokes in an informal interview the content of the work he has to perform, in order to prepare for the transition of a “deal” from the “signing” phase into the “closing” phase. He has elaborated, along with other members of the deal team, a table entitled “Roadmap to closing”, detailing the successive steps to realise in order to go from the signature of the “deal” to a real, effective “deal”. Each of the steps of the “roadmap” is associated to a deadline and one or two people (from the deal team and the middle office) in charge of ensuring the step has been successfully completed. He explains that he spends a significant part of his timetable organising the closing of the deal and asking other fund members to dedicate themselves. The transformation of an investment opportunity into an

actual investment is only achieved after the closing, when all the bureaucratic formatting of the deal has been performed.

## **Section 2. Convincing oneself of the performance of a deal through the accumulation of symbols**

After having shown how “investment opportunities” are progressively turned into deals, I now intend to detail how these deals are legitimated and how financiers manage to convince themselves of their value, through the bureaucratic symbols of the good investment.

### *Consultants and the external confirmation of the value of a company.*

First, this self-conviction work is performed through the use of external consultants. At several instances, I observe members of Starlight Partners busy writing specifications for consultancy firms or reading the reports produced by such consultants, related to the identification of new “targets”. For instance, one of them, who had just closed a deal at the time of my observation, decided to re-read the report of a consultancy firm that he had ordered a few years ago on the sector of the defence industry, in order to find clues for a new “target”. Another financier explains to me, before I interview him, that he is writing a document including specifications and “documentation samples” for a “former Mac [McKinsey] guy” (by hiring a former McKinsey consultant, he also displays the extent of his network and underlines with subtlety that he is himself a former McKinsey consultant). He wants to give him a mission of “sourcing” (finding potential targets) on the healthcare industry, a “small” mission of two weeks as an independent consultant, that the consultant would charge €10,000 – “a much more affordable” price than McKinsey’s actual rates.

In addition, members of Starlight Partners get advices from executives of the sectors they target. During my observation, I was able to observe one of these advising sessions. A director of Starlight was aiming to “originate” (find by himself) a new deal in the healthcare sector. To find ideas of potential targets, he paid a company (that was working quite often with Starlight Partners) specialised in the confidential matching of executives of a given sector with fund managers. Acting similarly to a human resources advisory firm, the

consultancy examined his request and identified a set of executives that could possibly talk to him about a given company, sector or product. Then, the director chose the person he wanted to talk to. Finally, he called the executive and talked about the healthcare sector from his phone, in the office of the fund, through an anonymous and confidential phone service intermediated by the consultancy firm (that guarantees the confidentiality of the caller and charges around €1,000 per hour of call). I observe such a call: during it, the director is willing to get information on the sub-sector of food supplements and over-the-counter drugs (such as C vitamin, omega 3, cod liver oil, etc.). Because of the report he has received from the former McKinsey consultant, he targets more specifically a small pharmaceutical company specialised in food supplements to ease digestion. Therefore, he asks questions to the executive on the value chain of over-the-counter drugs related to the digestive function. But he is also careful not to put an explicit emphasis on the company he has in mind and that he would like to target: he deliberately asks open question to the executive or asks question about other companies to cloud the issue. Beyond the confidentiality matters, he also emphasises how the symbolic support of consultants relies on some conditions – in particular, consultants should not confirm the value of a target just to please their clients but should identify a company as a good target by themselves.

During the call, while an intern takes notes, the director watches to his computer screen, crossing what the consultant says with Google searches, doing his emails, checking the news on the French Figaro newspaper's website, or shutting off the microphone to exchange jokes with the intern. Once the call is over, I ask him what he thought about this consulting session. "She was not very good", he asserts about the executive he had talked to. He means that even if he was able to get general information from an insider about the market for food supplements and digestive over-the-counter drugs, he did not learn any new



information on the targeted company or on funding needs from other companies in the sector, that would justify further investigations and expenses from Starlight Partners.


*Committees, papers, and the internal bureaucracy of the “process”.*

After the explorational period, the “deal” enters into the “process” phase, that is to say the intermediary period during which fund members try to negotiate and elaborate the financial arrangement (in French: *montage*) of the deal until its signature, both within the fund and with external actors. The process is segmented by successive bureaucratic steps, from the first expenses that the fund has to engage to the final “closing” step. At each of these stages, the investment decision and the collective belief in the likeliness and worthiness of the investment is progressively strengthened, as it receives the symbolical anointing of an increasing number of actors. In the case of Starlight Partners, an asset management company frequently described as a “very structured” one by its members (meaning it has a lot of internal procedures and bureaucratic committees), the normal conduct of a “process” involves, before the investment decision is formally taken, three internal bureaucratic procedures: the “ObsCo” (observation committee) paper, the first investment paper and the final investment paper.

A large part of the deadlines of Starlight Partners’ members (and an important part of Impact Equity’s members, even if the fund has less bureaucratic procedures) are ruled by the production of these papers and their defence to the London “observation” and “investment” committees. Beyond their use as reporting tools within the fund, these committees also have basic consequences for Starlight’s members: the successful defence of each of the three papers allows them to engage the fund into expenses and legally binding procedures, judged to be necessary to the final investment decision. For instance, the approval of the ObsCo paper by the “observation committee” is needed by Starlight’s fund members in order to sign a “non-disclosure agreement” with the firm: this agreement enables the fund to receive statistics about the company and participate in further bids to acquire the firm. Later in the

process, the approval of the first investment paper by the “investment committee” allows fund members to send the targeted company what fund managers call an “LOI” (letter of intent), that is considered to be a necessary step in the acquisition of a company and is more legally binding than the “non-disclosure agreement”. It also allows financiers to spend money on the achievement of a proper “due diligence” by specialised auditing firms, in order to get a more detailed report on the activity of the targeted firm. Finally, the approval of the final investment paper allows the “deal team” to issue a firm offer in order to buy its target and to engage in the “signing” negotiations.

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*Figure: table of contents of an investment paper of one of the funds I observed, dedicated to the investment committee and related to a company that they were currently targeting.*

As shown in the following interview extract, in these papers, Starlight members organise the information they have on the targeted company in order to convince the members of the committees (at Starlight, these committees take place in London, but they include people from all the branches, including members of the Paris “deal teams”; at Impact Equity, they take place in the Paris office of the fund) that the fund should go ahead in the investment process. In the following interview extract, an interviewee evokes one of these committees:

Q: All right. And you say you were temporarily sent there [the Stockholm branch of Starlight Partners] to help on the writing of the second paper...

Associate: Yeah. On the first paper of the second committee [the first investment paper]. And what does it mean? Well, it means writing pages of analysis and doing slides [laughs]. That's it, it's very simple. And what do we say in the first paper, in general? We just explain to the committee why we like this opportunity, we detail our investment thesis, our investment rationale. And then we describe this through a kind of plan, first why the business is nice, then why the market is nice, why the management [team] is the most awesome one, why key statistics are good, etc.

The succession of papers at Starlight Partners is not an exceptional phenomenon. A partner at Impact Equity, a former Vendôme Capital fund manager, tells me about his relief of being freed from the “stressful” ceremony of investment committees thanks to the more flexible structure of Impact Equity. However, the major part of the work at Impact Equity also consists in writing papers, receiving, computing, and integrating reports from businesses to other reports to investors, attending committees and meetings – even if the relationship with investors and between fund managers is softer at Impact Equity than at Starlight Partners.

I was able to observe one of these investment committees at Impact Equity, focused on the Tacos investment. This observation might not be a good sample to understand investment committees in general, as Impact Equity was a very experimental fund and committee members were probably more benevolent than members of other committees. Three external people came to the committee, in addition to the four Impact Equity managers that attended it:

the individual in charge of the fund of fund activity at French Public Bank (FPB); a partner of Vendôme Capital, a former colleague of François (an Impact Equity's partner) and a long-time support of Impact Equity (that helped to give legitimacy to the fund towards investors); the president of LBO Partners, a former colleague of Jean (another Impact Equity's partner), a historical figure of the private equity industry and a personal investor in the fund. The composition of the committee is determined in advanced by the statuses of the fund. During the meeting, Impact Equity's president and partners detailed several aspects of the Tacos deal, using a PowerPoint presentation meticulously prepared by Impact Equity's investment director and analyst (see previous figure for the table of contents of such a presentation). Then, a discussion took place with the three external members of the committees, during which some of the arguments for the deal were challenged (why was Tacos' business model superior to other restaurants? What were the entry barriers to the market?). Finally, the three external members of the committee agreed on the fact that Tacos was a very good opportunity – but the president of LBO Partners emphasised that the latest developments (the fact that Tacos' managers had hired an M&A bank to turn the deal into a “deal de place”) were worrying, insisting on the fact that Impact Equity could not afford to enter into a bidding war with competitors.

In this part, I argue that these papers and committees are part of a set of bureaucratic practices aiming to legitimate financial decisions. Because of their frequency, they provide financiers with frequent deadlines and an important workload, making them stressed and overworked. In the same time, these papers and committees give legitimacy to the financial decisions that are taken by financiers: financial decisions that result from this lengthy and exhausting bureaucratic trajectory are reputed to be good, performing financial decisions.

For instance, this can be shown more explicitly in the following extract (same interview as the previous extract), in which one of my interviewees highlights a stunning paradox regarding papers and committees at Starlight Partners:

Q: And does it happen that the committee rejects an investment opportunity?

Associate: Of course, of course.

Q: And do they reject them often?

Associate: Hmm [breathes during a long time]. Well it's funny, I've been here for two years but actually... But the rejection rate is quite low, but actually it is low because we, on our own... Sometimes we kill investment opportunities when we feel that we won't be able to defend them in front of the committee.

Q: All right, so actually since you've been working here you have never seen a rejection but it's because...

Associate: We never had any failure on important papers, because there are three levels of papers, ObsCo [observation committee] paper, first investment paper and second investment paper, we never had a strong, strong rejection on the first and final investment paper, that are the most important papers. Although on the ObsCo paper, which is a kind of screening phase, yes, we had some rejections. But that's also the point of this first selection, it enables us to screen investment opportunities that we'll have a hard time to get accepted [by the investment committee]...

There is already a paradox between how financiers describe themselves as “deal focused” and how, in the same time, they can spend endless hours on internal bureaucratic procedures in the middle of investment processes. But as this interviewee extract shows, the greatest paradox relies in the fact that the toughness of these bureaucratic processes and the stress surrounding them seems largely self-inflicted. Financiers set tough requirements to themselves, through bureaucratic procedures (the London branch setting tough requirements to all other branches) or even through informal procedures (people from the Paris branch forcing themselves to work more than necessary on bureaucratic procedures, “killing” investment opportunities to avoid potential rejections).

This example shows how bureaucracy is used to justify financial work. Bureaucracy fills the daily financial activity: it turns the two to three investment decisions that the deal team takes each year into a constant, stressful activity full of important deadlines. In addition, by submitting financial work to external examinations, in particular to examinations that are reputed to be very difficult and stressful (even though their result seems to be constantly positive), the bureaucratic organisation of investment funds such as Starlight Partners or Impact Equity emphasises the “excellence” of fund managers’ work – as only an excellent work could enable financiers to constantly pass all these tough bureaucratic examinations.

*Verifying the value of a company: the external bureaucracy of the “due diligence”.*

Finally, the “due diligence” process enables financiers to certify the value of the targeted company and the statistics provided to them by the sellers. As such, the due diligence is a crucial event in the building of certainty regarding an investment within the deal team. In this context, an audit firm is hired by the fund to verify the truth of the information provided by the company and to collect new information related to the targeted company. The due diligence is a relatively costly process, as it involves a lot of time from external auditors and as a consequence significant sums of money (in particular in the case of Starlight Partners, that hires consultants to audit large firms). For instance, during my observation, Starlight Partners was owning a French company, called Bijoux, that produces and sells jewellery for the mid-range market. At the time of my observation, Bijoux was elaborating the buyout of a Swedish jewellery firm called Sweden Luxury, with the financial support of Starlight Partners. Before the buyout, as requested by the traditional procedures of the private equity world, Starlight undertook a “due diligence” of Sweden Luxury. In order to do so, it hired one of the audit companies of the Big Four: auditors were then sent on the spot to check the value of Sweden Luxury’s factories, shops and assets. For a jewellery company such as Sweden Luxury, it involved to check the existence and the accounts of the company’s shops and

factories, but also to check the value of the stocks, that account for a significant portion of the value of the company. During a lunch, I observed Starlight members talking about this due diligence. They were telling each other that auditors went so far as to check one by one the jewels stored in Sweden Luxury's warehouses (using the barcodes on the jewels' boxes), in order to verify that the actual stocks were matching the company's accounts. As a consequence, auditors were able to certify to Starlight Partners that the value of the stocks was not overvalued by Sweden Luxury's accounts.

This due diligence process also involves collecting and consulting a heterogeneous set of documents related to the firm. During the "process", the M&A bank of the targeted company provide the potential acquirer with a set of documents within what private equity actors call a "data room". I was able to observe the content of such a "data room" in the case of the Tacos process: it consisted in a very detailed set of folders and sub-folders, accessible through a virtual and confidential access on a dedicated server, detailing many aspects of the life of Tacos. For instance, a sub-folder was containing all the employment contracts of Tacos employees and an Excel file detailing the remuneration of each employee. Another subfolder was dedicated to the regulatory procedures to which Tacos' restaurants were submitted – including, for instance, a file detailing the documentary proofs of the past security checks of all the fire extinguishers of Tacos restaurants. (Several other subfolders were also dedicated, of course, to the past accounts and the financial situation of Tacos.)

As such, all these processes (external consultants, investment committee, due diligence) can be understood as hugely time-consuming but necessary "rituals of verification" (Power 1999). These rituals are required before allocating capital by the internal norms of the private equity sector, as they allow potential operation to be judged as good, profitable ones.



### **Section 3. Reformulating deals in the language of corporate finance**

In this section, I intend to show how financiers constantly reformulate their operations into the language of corporate finance, translating the economic activity they talk about into concepts such as “value” or the “alignment of interests”. Indeed, to be considered as potentially profitable, operations do not only need to be validated by specific (often bureaucratic) instances: they also have to be formulated in a specific language, including statistical and economic concepts (statistics and agency theory being the “props” of the good deal, in a Goffmanian perspective: Goffman 1959).

#### *Using the legitimacy of mathematics to support financial valuations.*

During the “process”, fund managers elaborate successive versions of Excel spreadsheets (that they call “models”, such as “the Financia model” or “the Tacos model”). Based on the language and the technical tools of statistics (Excel files, “models”), these tables involve a constant work and enable fund managers to convince themselves and external actors (be they members of the investment committee or managers from the targeted company) that the deal is appropriate. This statistical work constitutes the most significant part of the working time of financiers I have been able to observe (in particular junior financiers). For instance, I have spent several afternoons observing the discussions between a director and an intern working on the Medica case, a company producing high value-added medical devices for surgery, at Starlight Partners. After having acquired the company the previous year, Starlight members were willing to extend it by buying competitors in Northern America and China. In order to prepare for these acquisitions, they were establishing statistical tables aiming to forecast the cost and income of each acquisition, and their effect on Starlight’s IRR (internal rate of return). The elaboration of such data looks basic with respect to formal quantitative analyses performed by scientists, but it consumes a huge amount of time for Starlight Partners’ members. Indeed, it involves numerous accounting refinements, a permanent work of

harmonisation between the various kinds of statistics, and statistical restatements.

In the case of Medica, the intern has elaborated a spreadsheet for his director in which the EBITDA (earnings before interest, tax, depreciation and amortisement: the most significant indicator for contemporary fund managers, as it is considered to be a “proxy for cash”, see Bourgeron 2018) forecast for the “Northern America” geographical area is linear. The intern has performed a preliminary estimation of the expected effects of the acquisition, based on a forecast in which the future evolution of the EBITDA is similar to its past evolution. As such, he adds the EBITDA that Medica was already generating in Northern America with the EBITDA of the branch Medica plans to buy, and then he multiplies this sum by an annual growth coefficient, corresponding to the growth observed in Medica’s “Northern America” branch during the five last years. However, the director asks the intern for more subtlety in the forecast of Medica’s EBITDA in Northern America. In successive discussions (the intern going back and forth from his computer to the director’s desk all along the afternoon), the director explains that he would like Medica’s EBITDA growth in Northern American to be split into two categories: the “base” category, corresponding to the current perimeter of Medica in Northern America, and the “new” category, corresponding to the activities that Medica is about to acquire in Northern America. He asks the intern to keep the two activities split in the table and to multiply their respective EBITDA by distinct growth coefficients: in the case of “base” activities, he asks to multiply the current EBITDA by the historical EBITDA growth rate of Medica in Northern America, and in the case of the “new” activities he asks to multiply the current EBITDA of the new branch by the historical EBITDA growth rate in this branch. Furthermore, the director asks the intern to refine the way this growth coefficient is determined, by including to the EBITDA forecasts some one-off changes resulting from the business plan. For instance, as part of this acquisition, Medica had to restructure the new branch it is about to buy: by diminishing the stocks of the branch, these

changes are supposed to release some “cash” for Medica, increasing temporarily Medica’s EBITDA. Reciprocally, Medica has to invest in its “base” activities in Northern America, diminishing its EBITDA during the first years after the acquisition. Therefore, the director asks the intern to modelise the EBITDA of Medica year per year, by taking into account the growth rates of each of the two branches of Medica in Northern America, but also by including the one-off effects of the business plan established by Starlight Partners.

Such reasonings aim to break down the statistics about targeted companies according to broad categories, in order to distinguish the “recurring” and “non-recurring”, the “normative” and “exceptional” values of specific indicators. During another meeting related to Financia, that I was able to attend, most of the discussions were related to how to understand the structural and generational effects behind Financia’s statistics, in such a way that Starlight’s investment analysis was as close as possible to the “intrinsic”, “recurring” value of the company.

*Figure of next page: first page of a model related to a targeted company (sensitive elements have been hidden). Here, the model represents the main hypotheses of the deal in order to be able to elaborate (later in the model) the IRR (in French: TRI) of the deal*

*Figure of the following page: a fragment of the model elaborating calculations on the future valuation of the firm, using the method of the transaction “multiples”. Using the targeted entry price (€6m), it finds out what will have to be the market multiples for this kind of companies in the future to sell back the company at the same price, given that the economic indicators of the firm (in particular its EBITDA and its “normative EBITDA” – in French, EBE and EBE normatif) will grow. Then, in the following pages, it enables the fund manager to calculate a likely exit price if the market multiples remain steady.*

## CALCUL du TRI

Cas Management

## Valorisation I

## Valorisation 100%

- pour l'augmentation de capital  
- pour les titres acquis  
Discount pour augmentation de capital  
=> Valorisation pondérée

Valeur des titres au 31/12/2015	Dette nette d'Entrepr.	Valeur
6 000	1 503	7 503
6 000	1 503	7 503
0%		
6 000	1 503	7 503

- Trésorerie au 31/12/2015  
+ Dettes financières au 31/12/2015  
Total Dette nette au 31/12/2015

-703  
2 206  
1 503

Investissement - Actions  
Investissement coinvestisseur - Actions

2015	2017	Cumul
1 320	300	1 620
880	200	1 080

Total Investissement Actions

2 200	500	2 700
-------	-----	-------

Investissement - OC

1 320	300	1 620
-------	-----	-------

Investissement coinvestisseur - OC

880	200	1 080
-----	-----	-------

Total Investissement OC

2 200	500	2 700
-------	-----	-------

Total Investissement

4 400	1 000	5 400
-------	-------	-------

## Emplois-Ressources / Opération

Emplois	KE	Ressources	KE
Acquisition 100% du capital	6 000	Apport en titres management	447
		Apport en titres autres actionnaires non sortant	840
		Apport en capital - Investisseurs	2 200
		Total - Equity	3 487
Cash excédentaire / financement du dev. (2 tranches)	981	OC - Autres actionnaires non sortant	393
		OC - Investisseurs	2 200
		Total - OC	2 593
		Taux d'intérêt	6,00%
		Prime de non-conversion	7,00%
Frais de transaction	100	Dette Senior - NewCo	1 000
		Taux d'intérêt	4,00%
Total Emplois	7 081	Total Ressources	7 081

# Tableau des Multiples

Cas Management

<i>En K€</i>	2014	2015	2016	2017	2018	2019	2020	2021
Valeur de 100% des Titres Cible	6 000	6 000	6 000	6 000	6 000	6 000	6 000	6 000
Dette Nette	1 503	1 503	1 503	1 503	1 503	1 503	1 503	1 503
Valeur d'Entreprise	7 503	7 503	7 503	7 503	7 503	7 503	7 503	7 503

Chiffre d'affaires	2014	2015	2016	2017	2018	2019	2020	2021
	6 851	7 464	7 852	10 207	12 830	15 763	18 066	19 098
% croissance CA		9,0%	5,2%	30,0%	25,7%	22,9%	14,6%	5,7%
Multiple de CA	1,1	1,0	1,0	0,7	0,6	0,5	0,4	0,4

EBE	682	976	906	1 118	1 655	2 338	2 994	3 617
% EBE / CA	10,0%	13,1%	11,5%	10,9%	12,9%	14,8%	16,6%	16,6%
Multiple EBE	11,0	7,7	8,3	6,7	4,5	3,2	2,5	2,1

EBE normatif	1 155	1 451	2 059	2 858	3 735	4 300	4 300	4 300
% EBE / CA	15,5%	18,5%	20,2%	22,3%	23,7%	23,8%	22,5%	22,5%
Multiple EBE	6,5	5,2	3,6	2,6	2,0	1,7	1,7	1,7

REX	25	296	206	30	218	490	863	1 463
% REX / CA	0,4%	4,0%	2,6%	0,3%	1,7%	3,1%	4,8%	7,7%
Multiple de REX	305,6	25,4	36,3	252,6	34,5	15,3	8,7	5,1

## Valorisation de la cible

EBE -	682	976	906	1 118	1 655	2 338	2 994	3 617
-------	-----	-----	-----	-------	-------	-------	-------	-------

7,0

EBE x	4 773	6 831	6 340	7 824	11 584	16 363	20 961	25 316
Valeur d'Entreprise		5,9	4,4	3,8	4,1	4,4	4,9	5,9
Multiple EBE normatif correspondant	(1 949)	(864)	(3 267)	(3 787)	(4 877)	(4 820)	(2 618)	(188)
- Dette Nette	2 824	5 968	3 073	4 037	6 708	11 543	18 343	25 128

## Valorisation de NewCo

Valeur des titres de la cible	2 824	5 968	3 073	4 037	6 708	11 543	18 343	25 128
- Dette Senior	(1 000)	(857)	(714)	(571)	(429)	(286)	(143)	(143)
- Obligations convertibles	(2 200)	(2 486)	(3 309)	(3 617)	(3 979)	(4 400)	(4 887)	(4 887)

These calculations do not relate only to “fundamental value”<sup>22</sup>, but also to exchange value. Financiers gather information regarding previous transactions of companies related to the companies they own or target. In the case of Small Internet Provider, a company held by Impact Equity that the fund wishes to sell back, an analyst is asked to identify similar transactions in the past in order to calculate a range of price that could be negotiated with potential buyers – a very common practice that occurs frequently before deals. Then, financiers seek to establish the most significant indicators in the calculation of the value of a company and the way this value could be calculated through “multiples” of these indicators (for instance, the value of Small Internet Provider could be expressed as 7.5 times its EBITDA, based on the fact that recent transactions on similar companies have been brokered on a similar basis).

As such, statistical reasonings are constantly used in the daily life of financiers, these reasonings being part of their professional ethos. Through the use of statistics, financiers constantly elaborate alternative calculations of the value of the firms they own or target, between “fundamental” evaluations and comparative evaluations focused on the exchange value. By elaborating alternative accounts of the value of the firm and constantly refining these definitions of value (in what they pompously call “models”), they give a seemingly scientific, mathematical legitimacy to their profit expectations and to the investment decision they produce.

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<sup>22</sup> By fundamental value, financiers mean the intrinsic value of an asset as calculated through a “fundamental method”, such as discounted cash flows, i.e. the value of an asset as posited by neoclassical economics – as opposed to comparatist approaches based on market valuation, that is to say recent prices for similar assets. For more details about evaluation in the private equity and M&A markets, see Boussard 2014; Benquet 2018; Bourgeron 2018.

*Using the legitimacy of economic theories to support negotiation decisions all along the deal process.*

The conduct of the “deal” is permanently interpreted by financiers according to the logics of the agency theory. This is particularly visible in the Tacos process. After one year of negotiations, the deal failed, and Impact Equity withdrew from the process. Contrary to Tacos’ original project, in which Tacos was able to buy out some of its competitors with the help of a financial investor, Tacos was finally bought out by its competitor thanks to the support of another investment fund, and Tacos’ managers were fired in the afterwards. I was present in Impact Equity’s office the afternoon when the fund managers discovered that Tacos’ managers had hired an M&A bank to ease their capital increase, in order to “speed the process”. The M&A bank had elaborated a document summarising Tacos’ project and sent it to numerous funds on the Paris market (one of them, that was supposed to co-invest in Tacos along with Impact Equity noticed it to Impact Equity’s managers).

This news provoked contrasted reactions within the fund, in particular between Impact’s investment director and partner. Whereas the partner immediately concluded that the deal was going to fail because of that “mistake” (“it’s over”, he repeated, walking in the office, “they have just screwed up the deal”), the investment director downplayed the event. He thought it was just a mistake that could be reverted by reminding Tacos’ managers that “they had no interest” in finding alternative buyers, that “they acted against their own interest”, and that they should trust Impact Equity’s managers and end their contract with the M&A bank. A tense discussion between the partner and the investment director occurred. Then, despite knowing that the deal was probably over, the partner decided to call Tacos’ manager: “Philip, listen to me”, he told him (a short silence), “we’re going to do it [*on va y arriver*].” (New silence, and again with a very serious tone.) “We are going to do it.” (When he did so, I immediately noticed he involuntarily mimicked the catch-phrase of BFM Business



financial news channel at that time (“*on va y arriver*” was repeated twice in the BFM jingle), at the glory of cold-blooded financiers and business decision-makers.) However, I was stricken to observe how relevant were the first reactions of Impact Equity’s managers. A few months later, because of this new event in the process, Impact Equity gave up the process – priced out by bids from competitors. Finally, Tacos was bought out by its main competitor (Impact Equity’s plan involved to buy out the competitor through Tacos) with the help of another investment fund, and Tacos’ managers left the company.

In this case, financiers at Impact Equity were able to immediately interpret the new event (the hiring of an M&A bank by Tacos’ managers) at the light of game and agency theory: the M&A bankers, newcomers in the M&A industry, were probably willing to do deals at all costs, including if the deal was unfavourable to the managers that hired them; but the only way to do a deal favourable to the managers (Impact Equity’s plan included an increase in the share of managers in their own company) and profitable for the investor was to keep the price low, by not catching the attention of Rouquères Group (while undermining discretely its financial interest). The M&A bank, despite being hired by Tacos managers, was playing against their interests as their actions involved an increase in the competition around Tacos, an increase in the price of the company (in the interest of Rouquères Group), and the emergence of bidders more interested in firing managers than increasing their share in the company. Their knowledge of these theories enabled them to understand the logics of actions of the other actors of the deal (what Bourdieu would call a shared *habitus*), including Rouquères Group and the new M&A bank hired by Tacos managers, whereas these managers were not used to these kinds of reasonings and logics (and to the corporate finance *habitus*). Therefore, they were able to make sense of the new event in a way that Tacos managers were not expecting – these theories acting as a kind of shared *habitus* to which corporate finance involved in these operations often refer to act or to interpret actions.

Similar implicit or explicit references to agency and game theories occurred in many more situations: they were commonly used by financiers to understand all the daily events in deal processes or even in their own trajectories. For instance, in the case of Impact Equity: the fund was raising a new fund at the time of my observation: this fund included a specific investor, that required a specific clause in the fund contract. This was the “social carried-interest” clause, that conditioned a part of the carried-interest payment to the achievement of some measurable social objectives. Fund members were initially reluctant to this new device for a wide range of reasons, and one of these reasons was how this new device could misalign the interests of investors and fund managers. According to them, as long as the social objectives were not achieved, fund managers would have no more (or far less) interest in maximising the return on invested funds – and reciprocally, investors would have an interest to minimise the social impact of investments in order to minimise the fees they pay to Impact Equity. As such, they engineered complex devices to neutralise these theoretical issues, for instance by stating that the non-distributed part of the “social carried-interest” (in case of a bad social performance) would not be paid back to investors, but to a charity. Beyond these particular examples, fund managers were obsessed by the alignment of interests in all matters, both in deal processes and in their own working setting.

Fund managers’ obsession for the agency theory in the relations between fund managers and corporate managers or within funds is also necessary to the legitimization of investment decisions. For an investment decisions to be labelled as efficient, the different actors that participate to it have to have “aligned interests”: the alignment of interests operates as a symbolic guarantee of the future success of an operation (even if the alignment of interest has to be understood as part of a very specific ethos, that is embedded by most corporate finance actors but was not understood by Tacos managers).

## **Chapter 6. Raising funds: constructing its own legitimacy to manage capital**

## **Section 1. Turning itself into a financial investment**

After having shown the trajectory of the deal in the previous chapter, I intend to detail how asset management companies turn themselves (and their past deals) into investment opportunities for external investors in the fundraising process.

### *Turning “deals” into “portfolio companies”.*

Once a company has been bought out, funds practice a deep formatting of its economic activity, in order to reconfigure the company and make its financial performance appear more clearly. During the deal process, targeted companies are already modelised as part of the statistical work performed by interns and associates within asset management companies. This means that the activity of the targeted company is broken down into Excel tables, according to several hypotheses and indicators applied to past and coming years. This modelisation work aims to link the activity of the targeted company, estimated by these figures, to the financial performance of the fund and of the various actors involved in the operation. When they elaborate tables on the sales of a company, such as for instance in the Medica case that I observed at Starlight Partners, financiers are looking for an estimation of the effect of sales on the global EBITDA of the group. This effect on the EBITDA is then passed on the stock of debt and the valuation multipliers that rule the selling price of the firm, through formula on the Excel file. Then, this effect is passed on the financial performance of each of the actors involved in the deal (debt of the banks supporting the operation, money invested by the fund in equity, incentive devices for workers and managers, money invested by other shareholders). As such, fund managers turn into numbers the economic activity of the firms they target, in order to estimate the financial performance for the money they plan to invest, that is to say to make predictable the IRR indicator that they will be able to display to their own investors at the end of the operation.

However, this process continues after the “deal”. Once a company has been bought out by the funds I observed, it is submitted to an intense formatting, in particular through the implementation of “reporting” procedures. Despite being described as a very normal procedure by the financiers I interviewed, reporting processes look incredibly detailed and bureaucratic. At Starlight Partners, there are numerous different reporting procedures that portfolio companies have to cope with regularly. Every year, the deal team produces an “annual review” of portfolio companies, during which companies are audited in depth (with the visit of several members of the deal team in the headquarters and local production units of the firm), in a way that is similar to what occurred during the deal process. This review enables financiers to calculate the net present value of their stake in each of the portfolio firms. Every quarter, the fund elaborates, with the help of its portfolio companies, “management reports” (less detailed than “annual review”), in order to send them to its investors. The fund also asks for monthly updates from its portfolio firms about the main financial metrics, in order to send them to its debt providers. Finally, partners in charge of stakes in a given portfolio company also impose informal reporting procedures, depending on the context of each firm: in interviews, some of them talk about contacts every two weeks with the managers of the firm they own, some other assert that they are provided with updated key indicators (such as EBITDA or sales) twice per week by the CFO of the firm. In the following interview extracts, two interviewees detail some of the reporting procedures that they have to follow periodically during their usual working life at Starlight Partners:

Q: And you, you’ve been involved in investor relations?

Senior associate: The only way I’ve been into them is through the writing of all the management reports... That are actually notes that occur every quarter, every 3 months, and where we actually write kinds of synthetic profiles of each of the companies in our portfolio, where we detail the recent statistics related to the activity of the firms... Well, that’s not a big deal, it’s just two slides, a powerpoint, the big trends regarding sales, costs, EBITDA, regarding the big projects [of the business plan], about whether there is

an opportunity to perform strategic acquisitions, the outlook for the sale of the company, etc. And we update that every 3 months...

Director: We monitor closely the situation of our firms in the reporting [documents], because banks have to receive a reporting each month on the performance of the company, so we monitor very closely the evolution of our portfolio companies, that's really cool.

The burdensome dimension of these reporting procedures imposed by financiers appears quite clearly in the case of Impact Equity. The fund buys companies that are far smaller than Starlight Partners' ones: as such, it faces managers that are not used to in-depth, regular "reporting", and that are not able to perform them. Therefore, the fund dedicates a large part of its activity to encouraging the managers of its portfolio companies (or even forcing them) to format their current activity in a way that can be used by the fund as a financial investor, through reporting documents. For instance, this occurs in the case of the small company B2B France in which the fund had invested a few years ago. During a "deal flow" meeting, Impact Equity's managers were protesting against the lack of reporting from B2B France. The company was at that time growing at a fast pace and was not communicating to Impact Equity's managers the reporting documents they had requested (i.e. a quarterly report including, namely, the remaining cash and the current EBITDA). Impact Equity's fund managers were talking about this lack of reporting as an extremely important issue: in particular, one of the partners had just arrived in the fund and was discovering the case of B2B France. He asserted that he did not understand how a company could possibly escape its reporting duties. Then, he asked who was responsible for this refusal to submit to the account and financial formatting of the company. Other fund members absolved the CEO of the firm and accused the CEO: they tried to influence him through the use of coaches and mentors, but they did not manage to make him willing to formally "structure" his company. Finally, the new partner asks what they can possibly do to force him to cooperate and produce

the reporting documents the fund needs, going so far as to evoke the hypothesis of firing the CEO (“but concretely: can we fire him or not?”).

In addition, companies are also formatted to be sold back on the M&A market. When a company is held since at least three years, financiers look for a potential profitable sale of the company. At that time, they give a mandate to an M&A bank, in order to find potential buyers. In this context, the M&A bank re-uses the reports that the company has established and transmitted to the fund, along with other internal financial data: it elaborates a set of slides to attract buyers, in which it contributes again to turn the activity of the portfolio company into indicators. The constant formatting of companies’ activity enables the fund to construct the “financial performance” of its deal. Indeed, this formatting has real effects on the financial structure of deals and the indicators that the fund is targeting. Financial performance does not exist *per se*: it has to be built through metrological work, involving the crafting of data and indicators. As a consequence, as they enable the fund to construct the performance of its deals, these formatting activities also enable it to construct its overall performance as an asset management company, through the use and maximisation of specific indicators all along the financial operations.

#### Turning “portfolio companies” into performance.

The performance of funds like Starlight Partners or Impact Equity is constructed by funds themselves. First, this construction involves turning the activity of the fund into indicators, in particular through the ubiquitous “IRR” (internal rate of return) indicator. Discussions related to new fundraising sessions always reduce the worth of an asset management company to the IRR they achieved in their previous funds. However, the ranking of asset management companies in the struggle for financial capital is not that simple: in addition to the IRR, numerous criteria complicate the ranking of funds. Asset management companies are not ranked according to an absolute IRR indicator or to the average IRR of all the funds they

raised: each IRR indicator is relative to a specific year. Each fund is part of what investors and fund managers call “vintage” (as in the wine lexicon), which is identified to the year of the “closing” (moment when the fund has raised its definitive amount of money and can begin to be invested – different from the closing of a deal) of the fundraising session. Funds are only compared within their vintage year: for instance, Impact Equity and Starlight Partners’ current funds at the time of my observations were part of the 2009 and 2010 vintages.

Similarly, the IRR of a fund is not compared to all the funds of its vintage, but more specifically to the IRR of the funds of the vintage that belong to the same asset sub-class. Indeed, asset management companies tend to differentiate themselves by specialising in various kinds of private equity investment, such as venture capital, growth capital, LBO, infrastructure funds or impact investing. These categories strongly affect the ranking of the funds and of asset management companies. In the case of Impact Equity, the asset management company expects to have a quite poor IRR for its first fund (around 0%) compared to the IRR of standard private equity funds (generally higher than 10%). However, Impact Equity’s fund managers are very optimistic about their ability to raise a new fund. One of the partners explains to me that their IRR is in the “top tier” of the impact investing funds raised in 2009 (i.e. at the peak of the crisis), as most of these funds finally had negative IRR. Investors specialised in impact investing, such as funds of funds or banks with “impact” pockets to invest are therefore willing to invest in Impact Equity, despite its apparently low IRR, because of this categorisation.

Finally, the IRR is constructed through a complex set of metrological rules. The IRR of each fund is calculated according to specific, traditional norms: the IRR is not discounted from the end of the fundraising session as one would expect, but from the start of each “call for funds” (when a, asset management company willing to make an investment requires all its investors to make it a banking transfer corresponding to a fraction of the amount they



committed to invest) to the restitution of these particular funds after the end of the operation. Similarly, the IRR is not discounted until the liquidation of the fund as a whole: the IRR on the funds “called” for a particular operation ceases to be accrued when the money resulting from the liquidation of the operation are given back to investors.

The calculation of the IRR can be complex for fund managers themselves and has practical implications in their daily operations. For instance, in the case of Impact Equity, the asset management company had invested a few years ago in Easy Sport, a company that manages sport venues in poor neighbourhoods: in the meantime, the company has gone bankrupt and is subject to a procedure of judicial liquidation. Impact Equity’s fund managers are forced to sell the company or to shut it down completely. At some point, they receive a bid from a competitor, that offers them €1 in cash (a symbolical bid), plus up to €500k indexed-linked to the EBITDA of the company over the next five years. Impact Equity managers end up rejecting the offer, preferring a net “loss” (in French: *une paume*) to this incalculable potential gain. Indeed, they explain to me that this mechanism would have meant yearly transfers being made to Impact Equity in an unpredictable way, including several years after the definitive closure of the fund (Impact I) that financed the buyout of Easy Sport. That would have made their IRR very hard to calculate and as a consequence, they assert that this mechanism is “impossible” and “too complicated to implement” for them.

Furthermore, the performance of asset management companies is materially built through documents and Excel spreadsheets. In addition to all the reporting obligations that portfolio companies have to bear, Starlight Partners and Impact Equity are themselves submitted to an “investor reporting” procedure, to which they have to submit regularly. Within these documents, fund managers (at Impact Equity, “investor reporting” is performed by the investment director and the associate of the fund, whereas at Starlight it is performed by investment directors and the middle office of the fund) have to regularly reevaluate the

value of their current stakes, by using the models they developed while elaborating the acquisition project of the firm with the latest statistics sent by the firm in its reports.

Therefore, the performance of an asset management company is progressively constructed through successively updated documents and reports in which the company has to estimate its own value and to re-evaluate its previous estimations.

*Fundraising sessions and the transformation of “past performance” into legitimacy to manage capital.*

Finally, fund managers engage themselves in fundraising sessions, in order to obtain capital to invest. These fundraising sessions occur regularly through time, as private equity funds typically last ten years. Therefore, five to six years after the definitive closing of a fund (and the beginning of its investment period), financiers generally begin to look for raising a new fund in order to simultaneously have funds to invest and to divest at the same time. The fundraising session is organised in two main phases: the negotiation phase and the closing phase.

During the negotiation phase, with the help of their fundraising advisors, fund managers (or the specialised department in the asset management company, such as the Investor Relations department of Starlight Partners) have to get in touch with numerous investors potentially interested in providing a new fund with capital to allocate. In doing so, they have to go through a ceremonial very similar to the “deal” one: they hire external advisors (similar to M&A bankers) specialised in fundraising for private equity funds, they elaborate and send commercial proposals to potential investors, they have to “pitch” in front of them. In a way very similar to corporate managers, financiers also have to elaborate the “business model” of the new fund: they define the main “rationale” behind the fund. For instance, at Starlight Partners, a new fund was being raised while I observed the “deal team”: financiers involved in this fundraising had identified a “potential niche” for a specific kind of turnaround fund. The

project they designed focused on investing in companies with no growth or a negative growth, but that are too healthy to be bought out by standard turnaround funds.

During this first phase, future fund managers turn their past performance into potential legitimacy to raise money. Asset management companies such as Starlight Partners use the previous performance of the funds they managed, symbolised by their IRR numbers and some flagship deals, in order to convince investors that their capital will be allocated well. In the case of an asset management company with no experience (what financiers call the “first time first fund” category), financiers use their own personal trajectories in the past: new asset management companies such as Impact Equity are often constituted with former private equity fund managers (for instance, one of the founders of Impact Equity was previously a director at Starlight Partners). In this context, they embody the past performance of the funds they managed in their previous career and use it as a source of legitimacy for the newly created asset management company.

During the negotiation phase, future fund managers ask interested investors to sign the contract of the fund (what fund managers call “funding promises”). This contract turns investors into “limited partners” (LPs) and senior fund managers into “general partners” (GPs). The standard private equity contract includes a minimum threshold to launch the fund (€25m in the case of Impact Equity’s second fund), and a maximum threshold (€45m in this case) for the overall amount of money raised by the fund. When the “funding promises” are at least equivalent to the minimum threshold, the asset management company is able to do the “first closing” of the fund, and to launch its investment phase. During up to one year (this phase stops if the fund raises the maximal amount of money defined in its “mandate” contract), the fund begins to charge fees to its investors and to undertake its first investments (or at least to submit investment opportunities to its investment committee).

## Section 2. Accumulating legitimacy within the field of capital holders

After having shown how fund managers turn themselves into a financial asset for investors, in this section, I detail the processes through which fund managers build their legitimacy to manage capital by interacting with investors.

### *Convincing investors by capitalising on its “brand”.*

Financiers at Impact Equity and Starlight Partners have to build and strengthen their own legitimacy to manage capital. First, fund managers accumulate legitimacy through the construction of a “brand”, associating their asset management company to the idea of financial performance. At Starlight Partners, interviewees frequently evoke the desire of investors to be able to invest in the “Starlight brand”, beyond the mere performance of the fund. They assert that they had to “reject” investors from the fund, because of investors’ strong demand for Starlight Partners’ funds.

Partner 1: Well, then, the track-record, the brand name of Starlight, and the professionalism of people working here, have made things easier... Because when you say to your LPs that yesterday, the asset management company was hosted by Big Bank, whose core business was asset management, and that tomorrow it will be bought out by Starlight, whose core business has constantly been, since 30 years, to do LBOs with performance X and Y...Our LPs were quite happy, they weren’t worried at all, and nothing negative happened, everyone approved the move.

Director: Regarding the arrival of our time at Starlight Partners, it looked like a good place, a beautiful brand. A beautiful brand, with the pros and cons of beautiful brands, you have a super image, very strong financial means, but you have a limited ability to do what you want, you have a limited autonomy because you’re working in a specific framework, that’s it.

Partner 2: They had just ended their fundraising, but the team was brand new, they were just building the new team, etc. So I joined them in May 2005, yes...

Question: And was it a prestigious fund?

Partner 2: It wasn’t prestigious at all because they were just creating it. I took some risk, by the way, but I took it because it was hosted by Big Bank, and somewhat the brand

name, if you want, was creating a safety net in this adventure... But that was a purely entrepreneurial adventure, because the fund was not pre-existing, that was what we call a “first team first time fund”, people who have never worked together before... You have a lot of risk-taking in these cases, generally investors don’t invest in first team first time funds 5 times in the same year, because it’s a very specific risk. It also means that you can’t raise huge funds the first time, because it’s hard to raise money, even when you’re hosted by Big Bank... Because here you benefit from the name [of the bank], from the network, from clients of other business lines, namely the asset management one... All large banks and pension funds are customers of Big Bank’s asset management business line, so you knock on their doors and you explain, guys, we’re opening a small pocket of majority LBO, would you like to put a few million euros in it, etc.

According to interviewees, the construction of this “brand” is based on a set of factors.

To begin with, the “Starlight brand” is based on what a partner describes to me, in an unrecorded interview, as an “investor relations culture” from Starlight Partners: fund managers are encouraged to spend time on interactions with investors and they engage in deeper “reporting” tasks (i.e. providing information and statistics to investors) than their competitors. It enables the company to distinguish itself with respect to investors. In this perspective, when they underline the role of “reporting” and “IR culture” in fundraising, fund managers emphasise the way they have legitimacy to manage capital by presenting themselves as service providers, in front of investors presented as clients – these services including specific characteristics, such as “transparency” and serviceability to investors (what interviewees call, using the managerial vocabulary of Starlight Partners, the “investor first” mentality).

This brand is also strengthened by the “track-record” of the asset management company, i.e. the inventory of their past operations and performances. In the context of Impact Equity, the attention given to the past performance is evoked in the meeting between, on the one side, Henri (president of Impact Equity) and Emilie (partner at Impact Equity), and on the other side, two women willing to launch a new impact investing fund and looking for

advices. Henri and Emilie teach them how difficult it is to raise a fund for the first time: in particular, they explain that some important public investors (such as the EIF) systematically refuse to participate in fundraising sessions for “asset management firms with no track-record”. In a similar way, the first fund managed by Impact Equity is about to close (to be redistributed to its investors) approximately in the same time as they try to raise their third fund (Impact Equity III): when talking about that issue with an investor of the first fund, the investor explains that their ability to raise the third fund will be above all determined by the performance of their first fund – “if the IRR [internal rate of return, an indicator of financial performance] of [the first fund] is good, everything will be fine”, he tells them. In addition, beyond financial indicators related to funds and particular operations, the legitimacy to manage capital is also embodied in the previous trajectory (and track-records) of fund members themselves.

The “track-record” should be heard in a broad way: financiers are able to accumulate symbolic capital not only through successful deals, but also through the construction of new investment mechanisms. For instance, Impact Equity experiments new and popular financial devices in such a perspective: evoking the project of launching a social impact bond, in which the fund would participate either as a funder or as an intermediary, the members of Impact Equity remain sceptical on the financial return of the operation. However, Emilie, a partner, asserts in the discussion: even if the social impact bond has low chances to work on a financial plan, they need to envision it as “a kind of research and development”. Henri, the president of the fund, adds: “or even as communication expenses”. As such, past deals and operations operate as symbols that are embodied by fund managers and are used to rank them when distributing capital or looking for an investor.

Similarly, a partner at Starlight Partners evokes the fundraising session he currently manages (at the time of the interview): he intends to launch a turnaround fund, within

Starlight Partners, with capital coming exclusively from French investors and raised exclusively by Paris-based fund managers. He asserts that one of the interests of raising this fund lies in the fact that the fundraising teams could only be French (and not British), as turnaround funds are heavily supported by large public financial institutions:

Q: And why did you raise money yourself, is it because you wanted to be able to...

Partner: Because we couldn't raise with English people, we had to do it with French people. Because our main investor is FPB [French Public Bank], and the FPB aims to invest in France to create jobs in France, so if you present it in English with a guy who understands nothing to France, it's hard... [laughs] Well, it's not very "marketing", because finally, people at FPB don't really want to talk in English, they rather want to be sure that their money is going to go to France, rather than going to an English pocket, so well, you have to write your slides in French... They ask for it, explicitly, you have to write papers in French, to talk French, and to understand the French system...

In this extract, the interviewee explains that given its specificity, a turnaround fund in France should be a national, French fund. As a consequence, in order to get legitimacy to manage such a fund, fund managers and investor relations people should also be French: the location of the fund management team and its nationality become specific criteria in the legitimacy to raise funds.

Finally, these "brands" can also be based on heterogeneous logics, depending on each asset management company. For instance, Impact Equity does not ground its legitimacy to manage capital on its transparency or its track-record: it uses the social dimension it has given to its past investment, through the communication around both its investment teams and its investments. In particular, the fund's legitimacy to manage capital (coming from specific sources, i.e. "impact" pockets) is based on the specificity of its investment mandate, focused on investing in social businesses located in poor neighbourhood. Impact Equity's managers are aware of this situation. As they have to reshuffle their investment mandate, in particular the section dedicated to poor neighbourhood that has become contradictory with the requests

of some of their investors (that consider that the location of a business in such a neighbourhood is not enough to make it “impactful”), fund managers worry about the perspective of abandoning this investment criterion. According to them, this would “blur [their] image” and make them lose their legitimacy accumulated through this specific positioning.

*Influencing investors, “evangelising the [capital] market”.*

The accumulation of symbolical capital also comes through the construction of interpersonal ties between financiers and investors. Fund managers (in particular partners) spend a significant amount of their time interacting with investors, establishing personal relationships with them:

Partner: And in addition, if you’ve a network of contacts it helps a lot. Just an example, it’s a very small world, for instance the guy who manages the Starlight VI dossier at FPB, he was my boss when I did my end-of-study internship a few years ago...

Q: In the fund of funds...

Partner: Exactly, it’s a small world, Charles [Starlight’s president] knows him since decades. You develop connections that are a real plus compared to a guy who strides from London, who doesn’t speak French and who asks: ‘hello, who are you?’...

During my stay at Impact Equity, I was able to observe several meetings with Impact Equity investors, some of them explicitly dedicated to investor relations and some of them incidental. Impact Equity fund managers used to meet the most significant of their investors at each investment committee. Before and after these committees, fund members would have individual small talk sessions with investors. Fund members also meet investors at financial events, such as seminars, conferences, cocktails and dinners, organised by central and neutral institutions, such as Big Four companies or finance-related NGOs and think tanks. Finally, beyond these incidental meetings with investors, fund managers organise formal meetings with investors, that play a very similar role to the “pitch” ceremony in the “deal” trajectory. In



the case of Impact Equity, during the company seminar that I was able to observe, Impact Equity members detailed potential improvements of their asset management company regarding investor relations. One of the partners reiterated several times (despite the reluctance of the other partner, particularly bored by investor relations) the need to organise an “investors’ cocktail” once a year in the office of Impact Equity. According to him, this event would allow them to develop long-term personal relationships with investors, to have some moments to discuss with them and to appear more transparent to them.

Similarly, a whole department of Starlight Partners is dedicated to investor relations, meeting investors and often asking members of Starlight’s deal team to travel to London in order to “be shown” to investors (as one Starlight director says sarcastically in his interview: as a member of the deal team, “we are picked up by the investor relations team from times to times, sometimes they get up and take you out of your closet to show you to investors that want to know the team”). I was not able to observe the investor relations’ section of Starlight Partners, but the fund used to organise regular events with capital providers, even at the level of local deal teams, as here with the director in charge of establishing debt consortiums for LBO deals:

Director (in charge of debt pooling): The other day, we organised a dinner with the ‘Capital Markets’ team, we were 5 of us. We organise an annual or bi-annual dinner with our main non-bank debt providers, that is to say funds... So, we invited... We were 16, including 5 people from our team, so there were 11 funds, most of them Anglo-Saxon funds, people that do the same thing as we do but with debt instead of equity, who were essentially coming from London...

This accumulation of legitimacy by fund managers is two-fold: when they accumulate legitimacy, they accumulate it for themselves, but they also accumulate legitimacy for their industry and for the financial sector as a whole. This is particularly visible in the case of Impact Equity: as its members acknowledge, beyond their activity for their own asset

management company, they participate in the broader financialisation process by “creating a new asset class”, i.e. in building the product of “social investment” for capital holders and the channels that enable this investment to take place. For instance, the construction of the social finance market requires capital holders to be morally converted to the use of holding social assets. During their corporate seminar, Impact Equity managers explicitly evoke this conversion process and the way to foster it<sup>23</sup>. Talking about the communication policy of Impact Equity, they agree on the fact that as a matter of principle, a standard investment fund should adopt the most minimalist communication policy possible. However, evoking the particular case of Impact Equity, they decide to adopt an active communication policy because “we still have to evangelise the market”. Therefore, the activities of Impact Equity aim to popularise “social finance” within the world of capital holders and their intermediaries. This evangelisation work goes beyond the mere world of financial investors: evoking the particular case of a gift from a foundation (French Foundation) to a charity (Useless Charity) he thinks is inefficient, one of the partners of the fund asserts: “we have to find a way that tomorrow, they [people from French Foundation] will reflect on the million they put in Useless Charity, and that they ask themselves: ‘well, but if we put this million in Impact Equity[’s fund], maybe it would generate a better return?’”. As seen in this example (but similar phenomena could probably be observed in the venture capital sector and many other

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<sup>23</sup> The case of Impact Equity is not as marginal as it could seem first. Indeed, even if “impact investing” is an emerging asset class, “private equity” was an emerging asset class too in the 1980s (see Benquet and Bourgeron forthcoming for a history of the sector in France) and similar processes of “evangelisation” probably occurred as well at that time. As evoked in the introduction, the Impact Equity case allows me to understand more broadly the primitive accumulation of legitimacy by an emerging financial sub-sector.

capital markets), financiers also play an active role in setting the norms that rule capital management at their own benefit.

*Accumulating legitimacy through the earmarking of financial capital.*

Investors themselves are ranked according to symbolic hierarchies – their money is earmarked and provided with symbolic characteristics. At Starlight Partners, the managers of the new fund being raised explain to me the importance of getting specific capital holders in the fund – in particular a public financial institution called French Public Bank (FPB). As seen in the following interview extract with a director from Starlight Partners, the presence of FPB as an investor in the fund seems to play an essential role (as a label would do – this labelling of capital flows depending on their source strongly evokes the processes of money earmarking detailed by Zelizer 1994) in the fundraising session, in particular with respect to other investors, in such a way that it is inescapable in some sectors. All the sources of capital are not equal, as they are associated to symbolical meanings and symbolical hierarchies within the private equity world:

Q: Okay. And I had a question, why FPB? Why do you want FPB in your fund? Because you have created the fund on purpose to have the support of FPB, or because you think it's a possibility among others ...

Director: In France, it's the main investor in private equity funds ...

Q: And is it a good thing to have an investor like that in your fund? Or it's just because they have a lot of money...

Director: It's the baseline investor in France. In terms of size, in the end, the FPB has the power to make LBO funds live or die... Well, at least French ones... International funds can do without the support of FPB, that's fine, but regarding those that are purely French, the FPB really has the power of life and death. It finances the whole system. Actually, in France, you necessarily have to tick the FPB checkbox [*passer par la case FPB*], it's not a sufficient condition but it's a necessary one, not having FPB with you is not an option. No, really...

Similarly, at Impact Equity, while they are raising a new fund, fund members often talk about their relationship with a particular investor that they absolutely want to be part of the new fund – Large Public Bank (LPB, another public investor). At that time, LPB had just launched a new “impact” pocket, as part of its fund of funds activity. With this pocket, LPB intended to use the financial means that the state gave it in order to “structure the impact investing sector”. However, the LPB had more complex requirements than the majority of other investors: it wanted to transform the asset management contract in order to introduce social objectives in it (namely through the “social carried interest” mechanism), in a strong contrast with traditional asset management contracts exclusively based on measurable, standardised financial returns. In addition, they had deeper requirements regarding the social dimension of investments (meaning some of Impact Equity’s past investments could not have been possible under this new contract) and the monitoring of social impact through third-party intermediaries. These requirements were not only hard to meet for Impact Equity’s managers, but they could also be detrimental to their ability to raise funds from other investors (suspicious about the “social carried interest” device, or about the lowered financial return that would result from a tightening of the social criteria of the fund). However, Impact Equity managers satisfied the demands of LPB: they were arguing that having LPB in their pool of investors would give them a particular, privileged status in regard to other French impact investing funds. Furthermore, given that LPB was called to be an important actor of the impact investing sector in the decades to come, they were relieved to have it onboard, even if the requirements of LPB were making fundraising more difficult in the short run. Therefore, capital providing by this investor was operating as a label for Impact Equity fund managers, as they thought it was giving them a strong legitimacy in the impact investing world.

### **Section 3. Controversies over the socio-legal devices of fundraising**

In this section, I detail the way financial flows within the private equity world are entangled with traditional socio-legal norms and how these norms are exploited or contested by fund managers defending their own interest or view of the sector.

#### *To adopt, adapt and interpret the traditional devices of capital circulation.*

Investors and private equity funds get bound together by contracts, that rule the financial flows between investors and asset management companies. These contracts include traditional norms, in particular the so-called “2/8/20” norm related to the remuneration of asset management companies (see also Appelbaum and Batt 2014). When fund managers raise money from investors through a fund contract, the asset management company is entitled to collect a 2% fee each year on the overall amount of money it raised for its current expenses. Then, when it closes (after the contractual 10-year period), it is entitled to collect 20% of the global profit (called “carried-interest”), if the profit of the fund exceeds the 8% threshold (calculated in terms of Internal Rate of Return). The rules that regulate the distribution of these 2% and 20% within the management teams vary depending on the internal rules of each fund. It is hard to materialise the monetary flows resulting from these asset management contracts. In a simplified model, for a fund like Starlight 8 (€4bn), the yearly 2% amount to €400m over 10 years, and the 20% of the profit amount to potentially €1bn over 10 years, with an IRR of 10% (10% being an average performance – Starlight 8’s IRR was around 15% and Starlight 9 around 20%). The €1.4bn figure should be compared to the relatively modest number of Starlight Partners’ staff (around 100 people for the deal teams all over the world), and the very modest number of partners (around 30 people). However, actual models of fund fees and carried-interest are more complex than the one described in this example. For instance, in the management contract of Impact Equity, the company includes two management fee, one management fee for the investment period (that ranges from 2% to 3.5%

depending on the size of the fund after the final closing) on the overall amount of capital raised, and one management fee for the divestment period (equal to 3% of the remaining fund under management, i.e. the overall amount of capital raised minus already divested participations). Similarly, fund contracts often include complex mechanisms that rule the distribution of the carried interest, such as catch-up mechanisms (fund managers receive an important proportion of the gain when the IRR is just above the hurdle rate).

This norm (like many other norms governing the relations between investors and fund managers) is considered as traditional in the private equity sector. Interviewees often complain about how the 2/8/20 rule is not adapted to the contemporary world of business, in particular to the fact that inflation has decreased since the financial crisis. However, when asked whether they should weigh on their investors in order to change this rule, all my interviewees assert that it would be impossible:

Question: Aren't there people that ask for a decrease in the [8%] hurdle rate?

Investment director: When you talk about it to LPs, they tell you it would be such a mess... You could probably find some ad hoc investment funds that are raised, with 2 Chinese investors and no hurdle rate, but if you look at the PE industry, it increased the quality of its investment during the last 25 years by keeping only one rule, this one [the 2/8/20 mechanism]. If you want, anyone knows in the industry, even if you are a fund from China, Taiwan, the US or whatever, that there will always be the 2 and 8%.

Similarly, in the case of Impact Equity (as I develop it later in this sub-section), fund managers cope with a specific investor willing to change this 2/8/20 rule in order to implement the “social carried-interest” mechanism. They are embarrassed by this request from their investor: they explain that it could make it more difficult to raise capital from other investors, as these investors are used to the 2/8/20 formula and could refuse to sign a fund contract diverging from this rule.

The devices through which capital circulates are also interpreted and sometimes criticised by interviewees. Fundraising figures or the 2/8/20 mechanism are interpreted in relation with internal debates and perceived unfair situations. Indeed, in the case of Starlight Partners, the main funds of the asset management company have grown in size, and within these funds the share that should be allocated by the Paris team has grown more than proportionally. However, the size of the team has not grown accordingly, and the average amount of each deal has remained the same (as the fund still focuses on “mid cap” companies). These evolutions resulted in an increased workload for the Paris teams of Starlight Partners, and tensions within the deal team:

Investment director: Everyone hasn't the same strategic priorities. Well, you see Starlight Europe, they had a €5bn fund, they realised it was a bit difficult to deploy it, they said: we're going to cap ourselves at €4bn, and they did that in their last fundraising session, and we are going to optimise the return on these €4bn...

Question: They had a first fund and...

Investment director: Fund 7... Well, that's what I understand, I'm not an insider, but I understand that fund 7 amounted to €4.7bn, fund 8 amounted to €4bn. All right? I don't think they were forced, constrained to reduce it, but they realised that €4.7bn, it was a lot of money, far too much money. We know how to invest €4bn quite well. More money, it's difficult. So, we're going to raise €4bn and we're going to use other business lines, such as Starlight Smid Cap, to raise complementary funds.

Indeed, interviewees frequently talk about the fact that Starlight Partners raises “too much” money, because of its brand and the IR teams in London. When I interviewed one of Starlight's partners (he refused to be recorded) about the difficult working schedules in the fund, he replied to me by talking about fund raising sessions. He told me that he had already evoked the subject with other partners and with London: Starlight was in a “paradoxical” situation, as the fund was raising money “in the same way as a large cap fund” but was focusing on the “mid cap” (i.e. companies worth less than €500m). He asserted that Starlight should either dedicate a part of its funds (a “pocket”) to “large cap” investments, that would

be invested in an easier way as it would require less deals to be done, or to accept not to raise more than €3bn to €4bn per fund. Reciprocally, Impact Equity's managers asserted that they did not raise "enough" money yet given their size. The asset management company had raised €100m in two separate small cap funds: this amount was described as too low to achieve the "critical size" of the fund. During an interview, a partner at Impact Equity explained to me that the fund had not attained its break-even point yet. As such, interviewees emphasised the equivalency between the volume of fundraising and the positioning of the fund in the market, as the size of the deal team seemed a relatively fixed factor for them.

At Starlight Partners, the disproportion between fundraising and the size of the team is frequently related to the incentivisation devices used within the fund. In particular, interviewees describe how the progressive increase in the amount of funds could be related to the incentivisation of historical partners (in particular partners from London) to the yearly 2% fees levied over the overall amount of the fund. This situation is perceived as unfair, because ordinary fund managers at Starlight Partners are only exposed to the 20% carried-interest over the performance of the fund, not to the 2% fixed fee over the whole fund. Indeed, the payment of the 20% carried-interest is conditioned by hurdle rate: they are paid only if the overall performance of the fund overcomes 8% of IRR (according to the 2/8/20 mechanism explained in introduction). As funds get larger, the 2% fee on the overall amount of the fund becomes large, but the difficulty to achieve the 8% threshold for fund managers increases as well, as it requires to invest more money and to perform more investments. This situation is illustrated by the following interview extract:

Investment director: You have a lot of funds that think: I'm going to invest my money, maybe I'm not going to attain the 8% threshold [for IRR], but I'm going to raise an €8bn fund, so I'm going to get the 2% over the €8bn. Shareholders at the top of the asset management company are very happy, but for small lads like me, that are paid to exceed the 8% threshold, it's impossible. (...)



Question: Because regarding the carried, actually, you were saying they were receiving the 2% fee, but don't they get the 20% fee as well, isn't it only for partners as well?

Directeur: Actually, you have two axes, the asset management company that gets the 2% of the overall amount of funds, that belongs to the 23 partners of Starlight, and they are directly incentivised to the size of the funds they raised. This is element A. The element B is the carried [interest]. That's for the whole team, not just the big partners in London, but for all the small lads like me, we begin to live well if we exceed the 8% threshold. And that's where you see that sometimes, you have misaligned interests.

Question: It means that if you take a partner, Marc or Antoine [young partners] for instance, they receive money from the 2% [fee]?

Directeur: Marc and Antoine, they are incentivised by the 2% fee, but in quite low proportions regarding to historical founders. You see, someone like Charles [Starlight's president, historical partner] who was here since the creation of the fund, the 2% fee, it means a lot to him, I wouldn't be surprised if he had earned far more money in his life through the 2% than through the carried [interest]. But partners like Marc or Antoine, they receive very significant amounts of carried, because all the old people that created this industry 20 years ago, they say to young people, go ahead, try to exceed the 8% threshold, if you manage to do so, get what you want... But there are market conditions where it's difficult, and now it's difficult, in particular when you're investing in big assets, you have to deploy a lot of money... And that's good if you think to the elderly partners that need to deploy money. But when you want to deploy a lot of money and that you have in front of you a lot of people who want to deploy a lot of money, then it begins to be annoying...

As a consequence, by raising "too much" capital in order to optimise the amount of money they will receive through the 2% fee, London partners force them to either make a very large amount of successful deals or to decrease their performance (and as a consequence their income, as they are more exposed to the 20% carried-interest over performance than historical partners).

Finally, the traditional devices of capital circulation are also adapted and modified by financial actors, depending on what they want to demonstrate. In the course of my observation, Impact Equity managers negotiate a new kind of contractual device with their investors for their third fund (already evoked in an allusive way in the previous pages), that

takes into account the parallel circulation of symbolic capital in addition to the financial one: the “social carried-interest”. Some of the investors of the third fund require that the carried-interest device condition the transfer of the 20% performance payment to the achievement of the social goals of fund. Through their “fundraising advisor” (a consultancy firm specialised in fundraising for asset management companies), Impact Equity’s manager negotiate this new device. In the same time as they negotiate the inclusion of “impact” in the carried-interest device, they ask for a change of the numbers of the “2/8/20” classical carried-interest formula, that would take into account the specifically low financial profitability of impact investing by increasing the proportion of the gain distributed to the asset management company. As such, in this case, the traditional contract of private equity is modified under the pressure of investors to show how financiers are incentivised to maximise the “social impact” of their investments – and to emphasise the contrast between standard financiers and “impact financiers”, in a way that helps impact investors to assert their specificity.

#### *Transforming the “business model” of investment funds.*

To raise money, private equity funds also adapt their structures (their “business model”) to the organisation of the market for capital. I was able to observe a discussion between two Impact Equity partners and two former corporate executives willing to launch a small private equity fund in the healthcare sector. Impact Equity managers had accepted to have a meeting with them in order to give them advices. On their side, they were interested in the perspective of sharing their offices and general expenses with a fund that would not be a direct competitor. In particular, the fund founders were looking for information about how to position their investment strategy regarding to investors. Even if they had decided to build their investment strategy around the healthcare sector, they were unsure about whether they should position it in a second field (such as technology (health tech) or impact investing (caritative healthcare sector)) or not. Impact Equity’s partners replied to their questions by advising them not to

focus both on the healthcare sector and impact investing. They argued that it would be an issue during the fundraising session given the internal organisation of financial investors, that is ruled by sectoral rules, in such a way that each fund of funds invests a defined proportion of its assets to alternative healthcare or impact “pockets”. Being potentially part of two investment “pockets” could take investors aback, as it would make their fund hard to categorise for them. During the discussion, Impact Equity’s partners encourage the two founders to think about the “market” of targeted companies that would be covered by such a positioning. According to them, investors would probably find the intersection between impact and healthcare insufficiently “deep” and “liquid”. As such, they consider that founders would fail to convince investors that there is a sufficient number of potential targets on the market and that these potential targets could be sold back later to the market to other funds or industrial actors – two criteria that they assert fund of funds examine with great attention.

In addition, Impact Equity partners describe how to write the fund project document that should be sent to investors. They also describe the successive steps in the fundraising session. They advise the two founders to add from the start the detail of “potential opportunities” to their fund project, that is to say potential targets that they could buy, should the fundraising session be successful. In addition, they advise them to find as soon as possible the minimum amount of funds (necessary to the “first closing” of the fund, i.e. to enter into the 1-year period during which the fund can begin to invest while still raising money), in order to be able to begin the activity of the fund and to undergo the first deal of the fund (that should preferably be a “good deal”). As such, the first deals would give legitimacy to their fund, catch investors’ attention, and would encourage remaining investors to invest in the fund.

Apart from this specific anecdote, during my observation, Impact Equity’s managers are interested in adapting the model of the private equity fund to the world of social

businesses. Reflecting on themselves in terms of “business model”, Impact Equity members try to find what they consider the optimal formal organisation to intermediate social finance transactions. For instance, at some point in my observation, Impact Equity managers study an investment opportunity of a company called Philanthropia, specialised in fundraising for charities. From the start, they know that the company does not meet the criteria of Impact Equity, from a financial point of view: however, they meet the owners of the company and pretend to study the investment opportunity as they think about a potential partnership between the company and their own asset management company. Philanthropia “advises” (i.e. acts as a financial intermediary for) political parties, local authorities, hospitals and universities for their fundraising sessions: they study the hypothesis of acquiring Philanthropia for their own use or entering into a partnership with it in order to make their own fundraising (by attracting other kinds of investors) or investments easier – thus envisioning a heterodox model compared to traditional asset management companies.

In the same way, Impact Equity members study the investment opportunity of a crowdfunding website: they believe that future crowdfunding actors will need the support of professional investors to supplement individuals’ money and that Impact Equity could be one of these investors. Therefore, when they get in touch with the crowdfunding company, they participate in shaping the business model of the impact investing fund by planning to insert it in the crowdfunding chains of capital – the fund being able to invest almost automatically a part of its money through the crowdfunding channel. Finally, Impact Equity members also plan to establish a partnership with other asset management companies, similar but not identical to them (for instance investing in education companies but not as an impact investor), in order to find “synergies”, to mutualise a part of their costs (such as the rent of the office, administrative staff, accounting costs, etc.) and to find co-investment opportunities on some deals (that require less time and involvement for both investors).

## Conclusion

As described in this part, the need of fund managers to legitimate their investment decisions all along the process of deal construction gets translated into a bureaucratic practice of investment. This bureaucracy allows financiers to translate the apparently random aspect of financial investment into a succession of controllable examinations and assessments. As a consequence, the success of a deal results from the fact that it has managed to accumulate all the (bureaucratic) symbols of the good deal: it has been recommended by a prestigious consultant, the value of the company has been certified by a renowned auditor, the deal has passed the successive committees to which it was presented. Similarly, the performance of a fund is built through a succession of bureaucratic processes, such as the elaboration of numerous reports or the use of socio-legal norms aiming to “align the interests” between actors: these processes are necessary to turn an asset management company into a good financial product for investors. Therefore, bureaucratic rituals and symbols play an active role in the daily financial work. First, they enable financiers to reduce the uncertainty regarding the outcome of their financial operation, by inserting their deals into a broader financial imaginary. Contrary to the fatalist attitude blamed by Marc (embodied within the “better lucky than smart” proverb), this bureaucracy enables financiers to understand the success or failure of a deal or a fund as the outcome of successive small bureaucratic steps that depend on their personal work.

## General conclusion

In this dissertation, I have sought to evidence the symbolic groundings of the struggle for capital in private equity funds. To achieve such a process, I have detailed the several stages of this struggle and the several ways of asserting a legitimacy of investor. Private equity funds and their managers struggle between each other to obtain the right to manage capital: beyond the struggle between funds, numerous other stages of legitimacy can be observed. Individuals struggle within funds in order to have the right to invest the money that the fund has raised in the deals that they have identified themselves. But they also struggle to access the financial resources of the fund in order to turn them into personal wealth. At an even more microsocial level, they struggle to appropriate particular operations, for instance by associating their name to it in specialised publications or by making them known in their asset management company as a key factor of the alleged success of the operation. Furthermore, this struggle can also be studied at a macrosocial level, that the ethnographic lenses of this dissertation has grasped imperfectly: a financial sector (such as the private equity or the impact investing sector) struggles with other financial sectors to obtain the right to manage capital (see Bourgeron forthcoming; Benquet et Bourgeron forthcoming). More broadly, finance as a whole is engaged in a process of legitimation, although heterogeneously and without any single governing actor.

In each case, this struggle has to be understood in a reflexive way, because of the nature of the financial actors that are observed (third-party asset management actors that do not own the capital they invest) – financial actors are always both objects and subjects of investment. When they struggle for capital, private equity funds have to justify to their investor the quality of a deal they intend to perform, but they also have to present themselves as potential deals by displaying a performance, a structure in which interests are aligned, a management team, in a way similar to the kind of displaying that they are looking for in the

operations that they perform. Similarly, at the individual level, individuals cope with each other to perform operations, but they also envision their own careers as financial operations and, as a consequence, construct themselves as objects of investment for the asset management companies that recruit them.

In this struggle for financial capital, this dissertation has shown how social actors accumulate symbolic capital. This accumulation is not an abstract one. At each level of analysis (from the most microsocial to the most macrosocial level), the struggle for financial capital is embodied in specific examination processes, in which the symbolic capital of each actor is evaluated. At the level of individuals, for instance, these examinations consist in the numerous investment committees that they have to submit to, or the due diligence examination that sometimes invalidates a potential operation and prevents them from going further in the process. But such examination can also consist in individual evaluation interviews, that define their ability to progress in the hierarchy as fund managers, recruitment interviews or even daily informal interactions. The symbolic capital that is evaluated in these examination processes is embodied in concrete symbols. As evidenced in this dissertation, these symbols are often material ones: fund managers include matter, space, and bodies in their symbolic hierarchies and use them to support their legitimacy to manage capital. But these symbols can also be less immediately material ones, that require the interaction of numerous institutions internal and external to the private equity sectors. As such, fund managers gather legitimacy from sources as diverse as business schools, internal investment committees, consulting firms, or specialised publications listing deals and the people allegedly involved in them.

In addition to having detailed the stages of the struggle for capital, the examination processes and the symbols involved in it, this dissertation has evidenced how these symbolic struggles are submitted to historical evolutions. In each of the parts of this dissertation, I have

emphasised the historical tensions in the symbolic hierarchies of private equity and the interpretation of symbols, in particular after the last financial crisis. In this respect, I have underlined how the culture of the hegemonic masculine body has recently been partly replaced, at least in discourses, by a culture of diverse bodies (supporting a very specific and hegemonic vision of diversity though). Similarly, I have also shown how the private equity sector has defended its legitimacy in the wake of the crisis through processes of cleansing, as part of its norms of appropriation of good and bad deals. I have detailed how the last financial crisis has enabled the private equity sector to increase the legitimacy of its remaining members by excluding some of its former fund managers, accused of being symbolically responsible for some of the bad operations the crisis “revealed”, thus maintaining its overall symbolic order despite the financial crisis.

As such, I have detailed a portion of the symbolic universe in which capital gets directed. In doing so, I have shown that the channels of capital are not only institutional or socio-technical ones, but they are also constructed by the symbolic universe of the various financial sectors through which it circulates – here the private equity sector. Reciprocally, I have highlighted how the circulation of capital affects numerous aspects of the social world: the process of financialisation to which private equity funds participate affects matter, bodies and professional trajectories according to different logics that I have underlined.

These logics of struggle for capital are peculiar to a historically and geographically located moment of finance, in which the circulation of capital is highly intermediated and relies mostly on third-party asset management actors that have to compete for capital. Within the specific contemporary historical period, this dissertation relates to an even more specific sector (the private equity one) observed through two distinct situations (a large LBO international fund and a small French impact investing fund). However, numerous observations from this dissertation could be extrapolated to other similar financial sectors, be



it the symbolic use of buildings and bodies, of trajectories, or the processes through which a potential operation is turned into a “profitable investment”. Therefore, I believe that such a research could be usefully extended to other realms of contemporary finance, by adopting another sectoral approach (focusing on hedge funds, banks, insurance companies) or another scale (focusing on the legitimation of a sector at a macrosocial level).

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